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FIXER-UPPPER FORTUNES

"How to make big profits from fixer-upper properties: Quickly!"

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professional real estate attorney or taxation professional to answer specific questions regarding their personal situation.

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Contents

Introduction

Real estate is one of the oldest forms of investing known to man. As our nation's population continues to rise, so does the value of land. This is great news for investors because real estate will continue to offer one of the best investment opportunities for many years to come.

Incredible profits can and are being made by purchasing run-down houses and improving their value from quick renovations.

Newcomers to this field are advised to devote considerable time to research and study. Before you test the waters, there are four factors that you should consider:

You must know something about remodeling and get an idea of how much it will cost to get the house back into shape. Consider what you will be able to do yourself and what it will cost if you have to have it done.

The location and design of the home are two of the most important factors to consider. Study the neighborhood, shopping and transportation facilities.

You make your profit when you buy. Pay too much and you will lose money when reselling.

You should always finance the project in the most inexpensive way, and use very little if any of your own money.

In writing this manual, I have attempted to share with you the highs and lows of fixing up houses. It contains powerful strategies that could make you a fortune in real estate, if you apply them.

It is not a book of theory, but a book based on proven strategies that have worked for both my clients and myself.

The formula, in a nutshell, is to buy a run-down house at the right price, using the correct finance structure, and fix it up for the least possible cost. You then sell it for maximum profit, or hold on to it and use the newfound equity to help fund your next property.

The manual is designed to be your 'step by step' mentor that will allow you to make quick profits from quick rehabs. It contains many practical tips that will help you avoid the same costly mistakes that I did when I first started out.

As a novice property rehabber, I soon discovered that there are many traps for the inexperienced.

I will also draw upon my many years of experience in the real estate industry to break through a few myths and teach you how to make a real estate agent a valued resource that can speed your path to riches.

Throughout the book you will find links to various books that I have used to achieve success and make a fortune from real estate. They are also included in a bonus chapter called "Recommended Reading." I'm sure that you will also find them of great value.

For almost ten years, I have fixed-up houses for both personal and investment purposes. Along the way, I have helped clients make hundreds of thousands of dollars from the very same strategies.

Now, I'm going to show you how to make huge profits from quick renovations.

Sal Vannutini

PS. Subscribe to my Fixer Upper Mini Course and newsletter, and you will also receive a special FREE report Born to Win - click here to subscribe.

Chapter 1 If I can do it, anyone can do it!

Personally, I don’t rate myself as being super intelligent. Nor do I profess to have all the correct answers in life. I do however, adhere to seven principles of success that have worked for me:

Believe in yourself

Self-belief is crucial to your success. If you don’t actually believe that you can do it, then you never will.

Develop a ‘success’ mindset and think like a winner.

Values

Whatever you do in life, do it according to your values. Always treat others as you wish to be treated. Maintain your personal integrity in all your dealings.

Understand and overcome fear

Fear is often described as:

False

Evidence

Appearing

Real.

When you arm yourself with the facts, you will always make the correct decision. If you are afraid to do something in case you make a mistake, ask yourself: What are the consequences if I don't do it?

As Jack Canfield wrote "Fear keeps us from taking action, and if we don't act, we never get beyond where we are now."

Be careful to whom you listen

This is without doubt the biggest challenge to being successful. If 80 per cent of people retire poor, then it follows that 80 per cent of people are doing things wrong.

Seek out the 20 per cent who are doing things differently and listen to what they have to say.

If you wish to find out the easiest way to the top of the mountain, ask someone who goes there often.

Learn as much as you can

You can never have too much information. The key is to understand the difference between good information and bad information. This way you will always be able to make correct decisions.

Read, read, and read!

Visit www.fixerupperfortunes.com for some of the most inspiring books on developing your success mind set.

Set clear and achievable goals

This will be explained in greater detail in Chapter 6 'What's Your Game Plan?' If you don't have a final destination, you will probably end up somewhere else.

As Napoleon Hill wrote, "Unless you know what you want from life and are determined to get it, you will be forced to accept the mere crumbs left by others who knew where they were going and had a plan for getting there."

Take positive action

This should be self-explanatory. It is often said that even the longest journey begins with a short step. Without this step, nothing that I say or teach you in this e-book will be of any value to you.

BUILDING WEALTH IS EASIER THAN YOU THINK

Okay, so it's not exactly child's play, but it's not as impossible as most people would have you believe. As you read on you will learn step-by-step how to build a multi-million dollar property portfolio.

Like any job, all you need is a little know-how, an action plan, all the right tools and finally, action on your part. Read this e-book, read it again, establish your game plan and gather all the required tools into your 'wealth tool box', then get to work. You'll be amazed at how much you can achieve.

It really is easier than you think. What you do achieve is limited only by the restrictions that you place upon yourself. So, read on and discover the two most powerful tools at your disposal.

CHAPTER REVIEW

If I can do it, you can do it!

You can never learn too much.

Take positive action.

If you believe you can’t - you won’t.

If you don’t have a final destination, you’ll probably end up somewhere else.

Read, read, and read!

Chapter 2 The Power of Leverage

“Give me a lever long enough and a place to stand and I will move the earth”. Archimedes.

Leverage is the ‘secret weapon’ of all successful investors. If you want to be wealthy, then you need to leverage.

Using OPM (Other People’s Money) is the most common application of leverage understood by property investors. However, the use of OPM is only one of the many forms of leverage available.

Now, let’s take a look at these other leverage tools and how they apply to the ‘buy, renovate and hold’ strategy.

Applied correctly, the combination of all these types of leverage can make you seriously wealthy in a short period of time.

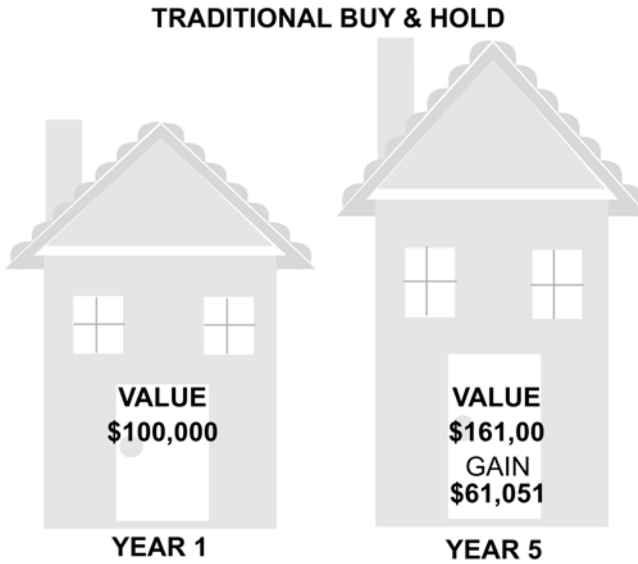
Just how wealthy you become will depend on your personal commitment to create a better life for yourself and your loved ones.

USE OTHER PEOPLE’S MONEY

Simply put, you borrow money to purchase an asset for capital growth.

A practical example of this is when you have $20,000 of your own money and borrow a further $180,000 to purchase a $200,000 investment property (see Diagram 1).

If the property increases by 10 per cent or $20,000, then the return on your original $20,000 down payment is in fact 100 per cent.



Contrast this to earning a 10 per cent return on your $20,000 if the money is invested in a savings account. This would only be $2,000. You are in effect using borrowed funds to control a larger asset than would otherwise be possible if you only used your own money.

Diagram 1. Example of leverage using ‘OPM’.

USE OTHER PEOPLE’S EXPERTISE

Unless you have a background in building trades, it would take too long for you to learn how to do all the work yourself. Employing experts to do the work will save you time and money. Do what you can do best, and let the experts do the rest.

A great example of this principle is the way I have used links throughout this book to “specialist” education products. I could have spent another ten years researching and writing about various subjects, but it is far easier to leave it to the experts, whilst I use my time finding more great deals.

USE OTHER PEOPLE'S TIME

How much is your time worth? Can you better use this time to make more money?

There is no logical reason to undertake a task that will save you $30 per hour when you can earn $40 per hour doing something else.

Outsourcing has become a modern day leverage miracle. Use it to leverage your way to millions.

Outsource everything that you can't or don't want to do yourself.

USE OTHER PEOPLE'S SUCCESS

As you read on, you will discover that the concepts and strategies in this e-book are not new, nor are they mine. What I have done is to learn from and emulate other people's success.

Find a mentor and learn from their success as well as their mistakes. It's easier to become wealthy by copying others than go broke trying to reinvent the wheel!

Consider the use of a success coach. It is no coincidence that elite athletes and performers use coaches. Success coaches help you turn dreams into reality.

This e-book is living proof of how a coach can help you get there sooner. Without the help of my friend and coach Brad Tonini, this e-book may never have been completed. His guidance and resources have proved invaluable.

CHAPTER REVIEW

Use leveraging to fast track your success.

Leverage from:

- other people’s expertise

- other people’s money

- other people’s success

- other people’s time

Consider the use of a success coach.

Subscribe to Fixer Upper Mini Course and newsletter and receive a FREE special bonus report called Born to Win – idea’s for winning the game of life. CLICK HERE.

Chapter 3 The Magic of Compounding

“Money makes money and the money that money makes, makes more money.”
Benjamin Franklin

Did you know that if you take one cent and double it everyday, it would only take 27 days before you had one million dollars? Sounds crazy right? Try this exercise for yourself.

Take a calculator and punch 0.01 (one cent) and multiply it by two. The new total will be 0.02 (two cents). Now multiply this by two, and repeat the process 27 times. Voila!

This is the magic of compounding in its purest form.

Therefore, if a $200,000 property increases its value by 10 per cent every year, how much will it be worth after five years? If your answer is $300,000, then guess again.

The correct answer is $322,102. After ten years, it will be worth $518,749, or 259 per cent more.

After 20 years, it will be worth $1,344,982 or more than 672 per cent. As you can easily see, it’s not hard to become a millionaire simply by buying a couple of properties and holding on to them long enough.

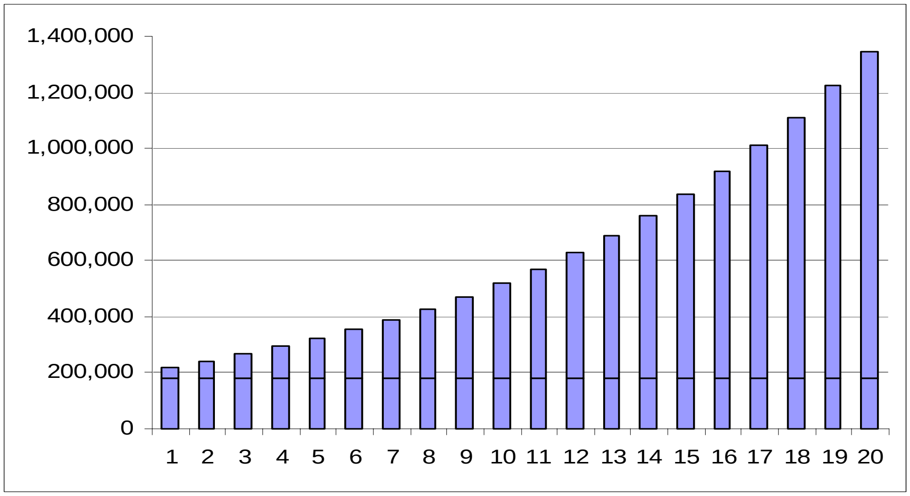
This is the magic of compounding.

Table 1 illustrates how this figure is achieved.

Year	Value	10% Increase	New Value
1	$200,000	$20,000	$220,000
2	$220,000	$22,000	$242,000
3	$242,000	$24,200	$266,200
4	$266,200	$26,620	$292,820
5	$292,820	$29,282	$322,102
10			$518,749
20			$1,344,982

Table 1. Example of Compounding.

This demonstrates the powerful effect time and compound can have on your wealth creation.



A capital appreciation of more than 672 per cent is a very impressive result (see Diagram 2.1). However, the example does not factor in the use of leverage.

Diagram 2.1. Compounding example where $200,000 increases at 10 per cent per annum.

What would happen if you purchased the same property using only $20,000 of your own money, and borrowed the other $180,000?

Even if you never repaid the loan, your net worth after 20 years would still be $1,164,982. This is still a good effort, don't you think?

The staggering part of this is that the 1.1 million dollar gain has been made using only $20,000 of your own money.

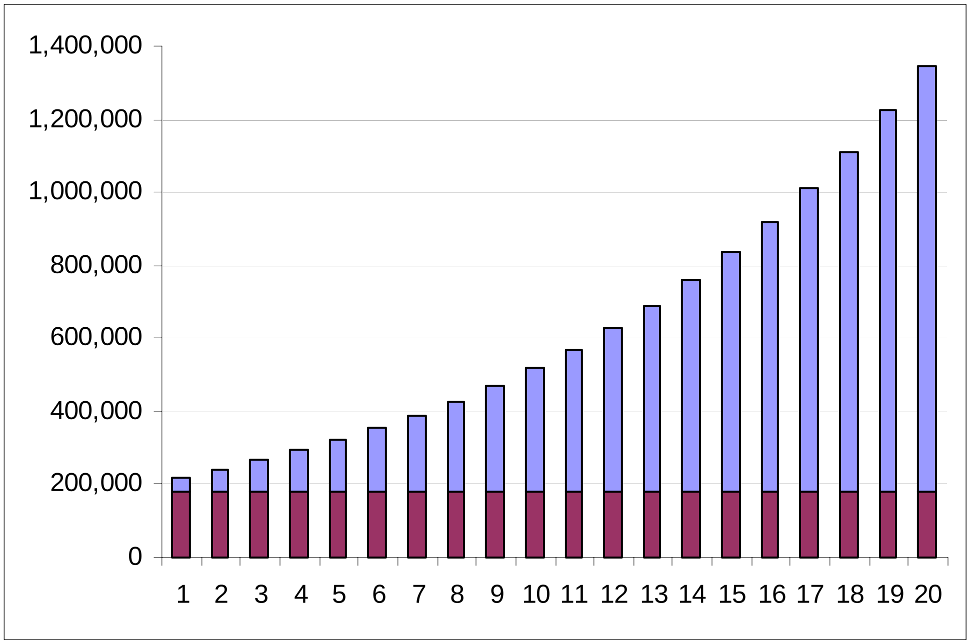


Diagram 2.2. In this example, a $20,000 down payment is combined with a $180,000 loan to purchase a $200,000 property. The lower purple bars indicate the loan amount, and the blue bars indicate the growth in equity.

The application of leverage to your investment strategy means that the original capital appreciation figure of 672 per cent is actually 5,500 per cent.

This calculation is based on the growth in value of the original $20,000, whereas the original figure of 672 per cent was based on an outright purchase with no loan (see Diagram 2.2).

As you can see, the use of leverage and compounding are undoubtedly your two main weapons when it comes to true wealth creation.

Imagine what you could achieve if you took your $200,000 and used it as multiple down payments to instantly purchase six or seven properties?

It is also worth noting that if you do nothing for one year, the cost to you is not the $20,000 increase between years one and two, but the difference between years 19 and 20.

Or in this example: $121,799. Do nothing for two years and it will cost you $256,769.00!

There is absolutely no doubt that the combination of leverage and compounding are the two most powerful wealth creation tools that you will ever have at your disposal.

The above example may be a simple one, but it clearly indicates how time can work for you. It also assumes that you have purchased a $200,000 property using $200,000 of your own money.

CHAPTER REVIEW

Use compounding to turn $200,000 into $1,344,982.

Use compounding and leverage to turn $20,000 into $1,164,982.

Let time do the hard work for you

Doing nothing for one year will cost you $121,799.

Chapter 4 Five Great Reasons Why

“If you’re going to work hard anyway, you may as well get rich - and do it as quickly as possible.” Harv T. Ecker

Why fix up run-down homes? The answer is simple: Accelerated wealth creation.

Adding value to run-down homes through quick cosmetic rehabs is one of the most powerful leverage tools available to property investors.

Traditional ‘buy and hold’ strategies are too slow for the investor looking for accelerated wealth creation.

As you are about to find out, it’s not all milk and honey, but the rewards that await you are definitely worth the hard work. So why should you fix up run-down homes?

INSTANT EQUITY AND FREE REAL ESTATE

By applying a ‘buy, fix-up and hold’ strategy, we are able to accelerate the equity and value of our property portfolio.

This instant increase in equity provides us with a down payment for the purchase of our next property.

It is therefore feasible that you can duplicate the process and acquire more and more property in a shorter time frame than using a traditional ‘buy and hold’ strategy.

Naturally, how many you buy will be limited by your capacity to fund the borrowings. Some of my clients are so committed to the process that they only buy properties by assuming low interest loans.

As a result, they have accumulated quite a substantial number of properties in only a short period of time.

The use of this newfound equity to fund your next purchase means that you are not using any of your own cash (see Diagram 3). Each new acquisition is effectively ‘free’.

When you see or read about investors that purchased 10 houses in two years using none of their money, this is how they do it.

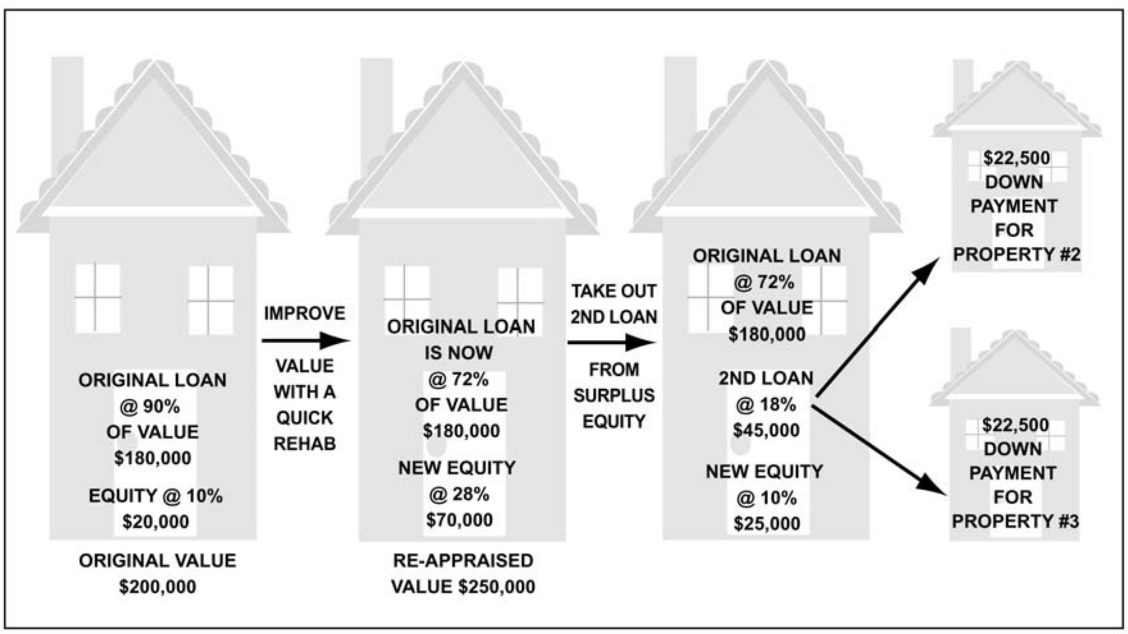


Diagram 3. Equity draw down example.

FAST TRACK YOUR CAPITAL GROWTH

The next great advantage of the ‘buy, fix-up and hold’ strategy is that you can make instant capital gains of 10 to 30 per cent (some clients have achieved returns of up to 60 per cent).

Depending at which stage of the property cycle you purchase, these gains might take to between one to eight years to eventuate as opposed to only one month!

By buying and adding value, you will instantly profit from any type of market conditions. When undertaking a ‘buy and hold’ strategy, the combination of buying in a growth area and adding value make this type of investing irresistible.

Imagine buying, fixing-up and adding an instant 20 per cent capital appreciation, then seeing values in your area taking off by another 20 per cent to 30 per cent over the next twelve months!

Let’s take this one step further. You use the extra equity in your first property to purchase the next and so on, until you have five $200,000 properties.

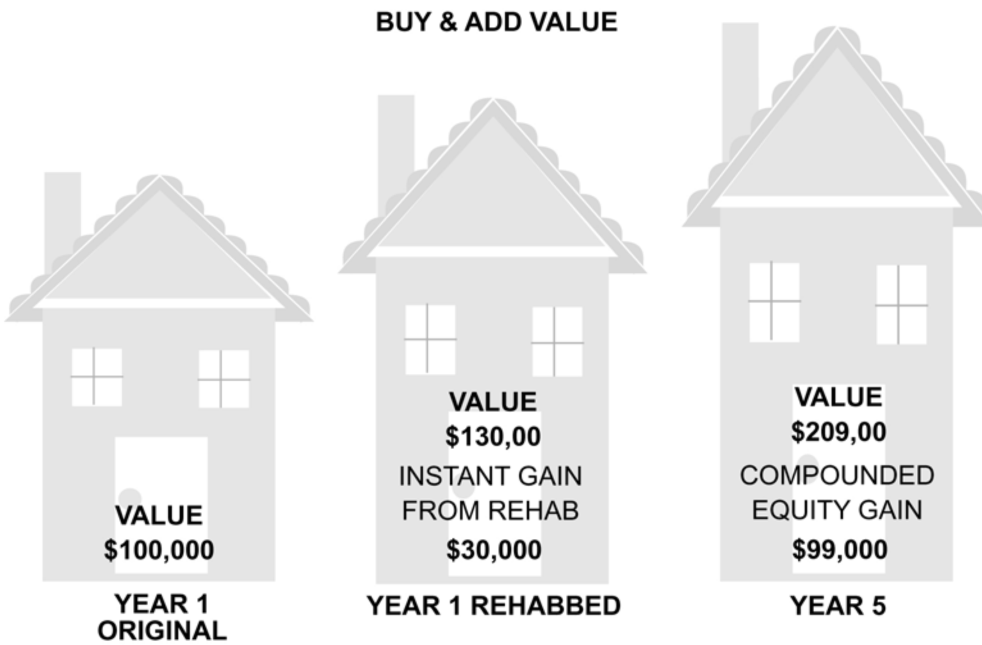
You now have $1 million dollars worth of real estate upon which you will have added 20 per cent capital gains, or $200,000. Plus, add another 20 per cent growth in values and you can see how easy it is to create $400,000 in equity.

NOTE: A 20 per cent growth through added value should be your minimum target with any project. Any extra growth from rising values should be seen as a bonus.

Diagram 4. Traditional ‘buy and hold’.

Diagram 5. ‘Buy, fix-up and hold’.

Adding value from quick renovations allows you to accumulate more properties in a shorter amount of time. Even if you accumulate your properties at or near the peak of the property cycle, you are setting stage for your net worth to explode when the next upturn comes around.



MAKE $100,000 PLUS PER ANNUM

If your objective is to ‘buy, fix-up and sell’, then a six-figure income is not out of the question. Applying the previous example with only four properties would yield you a gross profit of $160,000.

When selling, we must allow for extra costs such as selling costs, legal costs and closing costs. Even if we take these costs into consideration, a $100,000 net profit is achievable. In other words, four properties each netting a $25,000 profit = $100,000 income.

As you can see, it is possible to make an excellent income if you really want to.

SAY GOODBYE TO YOUR BOSS

Depending on your financial circumstances, you may be in a position to generate enough income and stop working full time.

This concept may seem like a pipe dream to some readers, but regardless of your situation you will achieve nothing unless you make a start.

Some clients who attend my private workshops would love to become full time rehabbers, but don't have sufficient funds.

Quite often, the answer is right in front of them. Why not start with your own home? Carry out a cosmetic makeover and have the property re-appraised.

Using the techniques demonstrated in this e-book, you could use the newfound equity in your home to fund your first fixer-upper.

GET A LIFE

"We all have two choices: We can make a living or we can design a life." Jim Rohn

You have probably heard the saying that the day you find a job that you love doing, is the day you stop work.

If, like me, you enjoy rolling up your sleeves and getting your hands dirty, then this may be the greatest career move that you make.

It is fair to say that when undertaking the work myself, I have never spent more than six hours in any one day on the job. The flexibility involved with being a full time renovator is enormous.

There can be no greater satisfaction than waking up in the morning, deciding that you don't want to do any work, then rolling over and going back to sleep.

We are assuming that you will be doing most of the work yourself. What if you did none of the work? What if you decided to outsource all the work?

Personally, I now find myself too busy with other business activities that I spend very little time doing the renovations.

Rehabbing is a business where the theory of working on the business and not in the business, holds true. Finding the deal and leaving the renovations to others allows me to better leverage my time.

CHAPTER review

If you are going to work hard, you may as well get rich quickly.

Five powerful reasons why:

- instant equity and real estate

- fast track your capital growth

- make $100,000 per annum

- say goodbye to your boss

- get a life

Chapter 5 The Recipe for Success

Warren Buffet is arguably the most famous 'value investor' of our generation.

His recipe for success is to purchase companies that are undervalued relative to their income potential; buy companies and add value to them; or both.

His methodology is commonly known as 'Buffetology'.

Our recipe is similar in that we seek to apply 'Buffetology' to real estate instead of companies.

We are seeking to purchase properties below market value, add value through cosmetic improvements and sell them at a profit or hold them and use the equity gains to fund other properties.

If you want to bake the perfect cake, then you follow the recipe. It therefore stands to reason that if you want to create wealth, why not follow the recipe from the master 'wealth chef' of our generation?

CHAPTER review

- Purchase below market value.
- Add value with a quick rehab.
- Sell the property at a profit, OR
- Use the newly created equity to fund your next property .

Chapter 6 What's Your Game Plan?

HOW CAN YOU REACH YOUR FINAL DESTINATION IF YOU DON'T KNOW WHAT IT IS?

Becoming a wealthy property renovator is actually a very easy process. So why do so many investors get it wrong, or even worse, do nothing? Simple: NO GAME PLAN!

The only way to succeed in the property renovation business is to actually get into the property renovation business. To do this successfully, you need a game plan.

Before you commit a single dollar or a minute of your time, you should step back and have a good think about what it is that you want to achieve. This may sound like a waste of time, I can assure you that it isn't.

Ask any top performer from any walk of life and I can almost guarantee that each one has set goals for themselves, and has a clear vision of what they want and, just as importantly, how to realize that vision.

Your game plan will give you a focal point to aim for. It will be your beacon for success when stormy weather sets in on your project. Without it your chances of quitting at the first obstacle are high. It will be your step-by-step guide to overcoming these problems.

When drawing up your game plan, it is crucial that your objectives are congruent with your values. Personalize each objective so that you will strive harder to achieve it. If the outcome is worth the hard work, then you are most likely to follow through. To simply state that you want to make 'bucket loads of money' will not do it for you.

This e-book will go quite a long way to showing you the 'which one?', 'how much?', and 'how to' of property renovations. However, you must also have an understanding of your own objectives prior to making a start.

When developing your game plan, you may wish to consider the following questions:

How many rehabs do you wish to complete in one year?

Your target should be realistic and reflect your available time and finance capacity. You should take into consideration all external influences and potential obstacles.

Do you have sufficient capital/finance to achieve this target?

Once you set your 'how many can I do?' you will have to make sure that you have the financial resource to back this up. As you can see, this will influence the first objective.

Will you sell for profit or hold?

What is your exit strategy? You must always include one in your game plan. Your exit strategy will be crucial if your circumstances change.

Do you wish to create an additional income stream?

How much do you need? This will also relate to how many you complete and how much time you have to spare.

Do you wish to do it as a full time job? If the answer is yes, then you must understand that you are setting up a business and all that this implies. If your target is $100,000 per year, then you will need to complete and sell a minimum of four properties per year with a $25,000 profit each.

HOW TO SET UP YOUR GAME PLAN FOR SUCCESS

By far the easiest and best method that I have discovered to draw up a game plan is to use the PERT method (see Diagram 6). PERT stands for Program Evaluation Review Technique, a methodology developed in the 1950's by the U.S. Navy to manage the Polaris submarine project. You may well be asking: what do submarines have to do with renovations?

The PERT method is a flow chart that maps all the tasks involved with achieving a desired objective or outcome. At the top of the chart is your stated goal/objective. In his best selling book The Seven Habits of Highly Effective People, author Stephen Covey's second principle is: Begin with the end in mind.

Once we begin with the end in mind, we can then work backwards to the task required to get there. We continue this process until we work back to the start.

The actual PERT diagram that relates to property renovation best illustrates this.

Diagram 6. Example of the PERT method.

Action plan number Date

Final Target Date Date achieved

Area of life

VISION

Goal statement

Benefits that come from achieving my goal
How will others benefit from me achieving my goal?

Possible obstacles
Strategies

Table 2.

Positive Action Plan

Specific action steps for achieving this goal	Date	Complete ➨

Sequence of Events	Date

Is it worth the time, effort and money to reach this goal? YES ❑ NO ❑

Affirmations to support goal

We did it!	

Table 3.

CHAPTER REVIEW

Knowledge is worthless unless you use it.

Set up your game plan.

Begin with the end in mind.

Chapter 7 Your Reality Check

In previous chapters, I have outlined the advantages and rewards when undertaking this type of investing. Before you rush out and sign on the dotted line, there are many traps for the unwary or inexperienced renovator.

This chapter deals with these traps, based on my own experiences and those of my clients, so that you can become aware of, and eventually avoid them.

This chapter has not been written to discourage, but to simply open your eyes to what is really involved and perhaps save you from thousands of dollars in costly mistakes.

All too often I see investors who make mistakes and lose money. Worse still, they give up and continue to do nothing to improve their financial situation.

If you get through this chapter and still have a desire to test the waters, then there is a strong chance that you will succeed.

GET RICH SLOWLY

Whilst the investment methods discussed in this e-book can rapidly increase your wealth, it is not a miracle cure nor is it a ‘get rich quick’ scheme. It still requires time, dedication and effort. The results that you ultimately achieve will reflect on your commitment to these three areas.

If you are seeking a ‘get rich quick’ solution, then you may as well put this book down right away. I’m sorry if this disappoints you, but serious investors are in the game for the long run and are prepared to wait before they reap the fruits of their labor.

Always remember that property investment is more like running a marathon as opposed to a sprint.

THE 80-20 RULE

One of my pet hates is painting. Actually, it's not the painting itself, but the entire cleaning, sanding, filling, scraping and messing about that goes with the job. Many years ago I worked for a paint company and learned a valuable lesson: Painting is 80 per cent preparation and 20 per cent application.

This very same rule applies to buying and renovating property. Ninety per cent of your time will be spent locating and purchasing the property itself.

Your preparation will be research, viewing, negotiating and more research. Like painting, your preparation will ultimately determine the quality of the finished work.

The good news is that the final 20% will produce 80% of your results.

DO YOU HAVE WHAT IT TAKES?

Human nature being what it is, most of us will have an inclination to do the work ourselves (I have been, and still am, guilty of this). Men in particular can be prone to spontaneous surges in their testosterone levels and see themselves as 'Tim the tool man Taylor' from the TV sitcom Tool Time.

'How hard can it be?' is often a question my wife would hear me ask. At this stage, her eyes would roll over and she would give me that 'here we go again' look.

My friend Michael and I recently undertook a joint venture renovation and adopted this philosophy. Suffice to say that we both learned some valuable lessons in work safety practices, not to mention our tolerance levels!

As renovators, we can easily convince ourselves to do the work and save a few dollars. This train of thought is fraught with danger on two levels.

Firstly, if the level of workmanship is substandard then this can and will affect your resale price. Experience has taught me one very important lesson: If you're no good at it yourself, pay an expert to do it.

Here is a quick quiz to help you make up your mind:

1. Do you have a natural flair for interior decorating?

2. Do you enjoy working on your own home?

3. Are you competent using power tools?

4. Do you have the time and energy?

5. Do you have patience?

Be objective when answering these questions, as any bravado can put you in hot water very quickly when you undertake to do the job.

The second danger refers to time leverage. It is false economy to save yourself $35 dollars per hour by doing it yourself if you earn $50 per hour.

Some of you may not earn $50 per hour, but should still consider the personal costs such as leisure time and influence on your job performance.

Do you really want to spend your precious spare time renovating? Also bear in mind that doing it all yourself can prolong the renovation time, which will cost you money in the long run. What you save in labor costs may end up costing you more in interest costs.

A final word of advice: If you really want to do it yourself, then perhaps use your vacation time. It may not be such a bad idea to do your first renovation over the holidays. This is a sure-fire way to find out if you have what it takes.

NOT SO INSTANT CASH FLOW

Trading property is nothing like trading shares. The whole process - from when you buy to when you sell and close - can take anywhere from three to eight months. Basically, property is not a ‘liquid’ commodity.

Proper planning is important here, especially if you wish to do this for a full time living. Although you may have hit the jackpot with an opportunity, it will be some time before you see any cash return. Meanwhile, the bills keep rolling in, the bank manager wants his money and so on, and so on.

If so, how will you pay the bills? If you wish to launch yourself into renovating as an alternative income stream, then I suggest that you bank one year’s income on which to survive.

As with any business venture, cash flow is king. There is no point having a potential $50,000 profit up your sleeve if you can’t pay your bills. Unless you have sufficient cash reserves, I highly recommend that you do two or three projects and put the money aside before you rush out and quit your job.

Always remember that there are significant profit opportunities to be made even if you outsource 100 per cent of the work. Be patient and don’t put any undue pressure on yourself, or your loved ones.

WHAT WILL YOU DO IF THE PROPERTY DOESN’T SELL?

There will be times when, despite your meticulous research and planning, the property doesn’t sell. External influences such as a lull in the market that coincides with your selling date pop up from time to time. Be prepared for this with an exit strategy and you’ll be fine.

Firstly, never enter a project if you cannot afford any unforeseen holding costs.

Secondly, there is no shame in holding a good property. If the market doesn't agree with you at that particular time, then rent it out for twelve months. If you have chosen your area well, this may actually work in your favor down the track.

Finally, should you be in a position where you must sell, then be prepared to forego most of the profit. Whilst $10,000 is way short of your $40,000 profit expectation, at least you will have learned some very valuable lessons and still managed a small profit.

DON'T PAY TOO MUCH

We make our profit when we buy. Pure and simple! I will always tell clients at my workshops that this is the most valuable advice that they will ever receive from me. The added value from the renovation is the icing on the cake.

Paying too much is one of the most common mistakes made by investors. Always research your market well and ensure that the potential selling price is achievable when all costs and profit margins are taken into consideration.

Never, ever let yourself be ruled by your emotions when buying.

Buying at 'fair' market value is fine if your objective is to quickly turn the properties over. You must always remember that we have to allow for buying, selling and closing costs.

Where possible, your purchase price must be sufficiently below market value to at least allow for these costs. Even better, the price should be low enough to allow for costs, plus renovation costs.

If you are fortunate enough to buy at a price that will cover all buying, renovating and selling costs - heaven! This is the ultimate deal.

The following form (see Table 4) will allow you to assess the real purchase cost of a particular home that you may have in mind.

When assessing how much to pay, use the PERT theory to calculate your purchase price. Starting with the final selling price, work backwards and deduct selling costs, profit margin, renovation costs, and buying costs.

This final figure is how much you should be prepared to pay (see Table 4).

Comparable value (Renovated property)		$270,000
LESS		
Profit / Equity gain @ 20%	$40,000	
Renovation costs @ 10%	$20,000	
Stamp duty / costs	$15,000	$75,000
PURCHASE PRICE		$195,000 or less

Table 4. What to pay.

PURCHASE PRICE EVALUATION FORM

PROPERTY ADDRESS:	
ACQUISITION COSTS	**$**
- Purchase price	
- Outstanding taxes	
- Bonds an assessments	
- First loan arrears (months x $)	
- Second loan payment	
- Title and escrow / origination fees	
- Loan assumption / origination fees	
TOTAL ACQUISITION COSTS	
ESTIMATED COSTS OF REPAIRS	
- Paint External	$
- Paint Internal	$
- Landscaping	$
- Fencing	$
- Electrical	$
- Floors	$
- Plumbing	$
- Kitchen	$
- Bathroom	$
- Roof	$
TOTAL ESTIMATED REPAIRS	
TOTAL PURCHASE	

Table 5. Purchase price evaluation form

GIVE THEM WHAT THEY WANT

How often have you walked into a home and been totally horrified by the décor? Yet this is another common mistake made by renovators. They let their emotions get in the way and decide what is good for them is good for everyone else. BIG MISTAKE!

There are two principles that I apply when renovating. The first is the K.I.S.S. theory: Keep It Simple Stupid!

The second is to focus on the 'WOW' factor. It is no coincidence that a home sells quicker and for a higher price when it possesses strong buyer appeal. Give the market what they want. You're here to make money, not win a home decorating award.

KEEP TO YOUR BUDGET

The great temptation of renovation is to do too much. Whilst the 'WOW' factor is critical, you MUST keep your emotions out of the equation and strictly adhere to your budget.

Nothing goes exactly to plan when renovating, so don't panic if you exceed your budget by small amounts. Allow for a buffer to cover any surprises (usually 10 to 15 per cent).

I certainly fell into the 'do too much' trap during my early projects. What I have discovered is that if you are doing the work yourself, you tend to see all the little defects, and you can easily get caught up in trying to fix them.

You must always keep in mind that you are working with old properties that weren't perfect to start with.

It's a bit like noticing all the small chips on your car's paint work when you give it a wash and polish. However, most people will never notice these chips. The same applies to your renovation. You’ll be amazed at how good it looks if you step away for a few days and take a fresh look.

Always have your costs estimated accurately prior to purchasing a property. Later on I will talk about contract of sale conditions. One such condition is to purchase subject to having a builder inspect the property. This will enable you to discover any unforeseen surprises. I encourage you to renegotiate the price should the inspection uncover any major defects - or better still, walk away.

My budget parameters are 10 per cent of the purchase price for houses. This can be stretched to 15 per cent if it means that a great profit can be made.

These are personal preferences that have worked for me. They are in no way set in concrete and readers should exercise their own judgment. There is no right or wrong way in this business.

The percentages that I allow are in keeping with my primary objective of obtaining the biggest bang for your buck in the shortest possible time and with the minimum amount of money possible.

CHAPTER REVIEW

Property investment is not a ‘get rich quick’ strategy.

90 per cent of the strategy is preparation. The actual renovation is only 10 per cent of the equation.

Be realistic. If you do not know how to do it properly, pay someone else.

If you intend to turn properties over, bank the equivalent of six to twelve months pay.

Have an alternative strategy in case the property doesn’t sell.

Don’t pay too much.

Give the market what it wants, not what you think it wants.

Stick to your budget.

Chapter 8 Where's the Money Coming From?

Your first priority - before you even start looking at properties - is to establish your borrowing capacity. In other words, how much can you borrow and what price range should you be looking at. Your borrowing capacity will determine the area and property type.

FIRST, PUT YOUR FINANCIAL AFFAIRS IN ORDER

Obtaining pre-approval of finance from a lender puts you in a strong bargaining position when the right opportunity comes along.

Always remember that there are 3 critical factors that banks look for when you apply for a loan:

Credit history

Capacity to meet repayments

Collateral

It is therefore important to put your financial house in order before applying for a loan. The key to success is to ensure that you have a perfect credit record. Learn more about credit repair here.

When organizing your affairs, I suggest that you obtain an updated appraisal on your current property so as to take advantage of any available equity.

If your own home lends itself to a quick rehab, then this is the best place to start. Updating your home is a great way to learn about quick rehabs before you commit further money to a fixer-upper property.

Once you have completed the rehab, have your home re-appraised and use the equity gain to fund your first renovation investment property.

You will also need to set aside enough cash for the following items:

Down payment.

Closing costs.

Rehab costs.

Interest costs.

Loan costs.

Selling costs.

Taxes.

DECIDE WHICH FINANCE METHOD TO USE

When it comes to choosing a finance method, there are basically three main techniques that are suitable for this type of investing. Which one you choose will depend on the terms of sale.

Finance method 1: Loan assumption

The assumption of existing low interest loans is without doubt the easiest and most inexpensive way to finance a real estate purchase. VA and FHA are loans that were originated by the previous owners, and are fully assumable by anyone without the need for qualification issues such as a credit report or loan application. The only requirement is a small assumption fee.

The other big plus of assuming a VA or FHA loan is that when you sell the property, the new buyer can assume the loan from you. Thus making it easier to find a buyer quickly. New VA and FHA loans will require an application and appraisal on the home. This is similar to a conventional loan application.

Finance method 2: Land Contract.

A land contract is where a buyer agrees to purchase a home and pays principal and interest to the seller, along with a down payment. Whilst the buyer retains possession of the home, the title remains with the seller until the conditions of the contract are fulfilled. If at any time you default on the contract, the property reverts back to the seller.

Finance method 3: Conventional lending.

Conventional loans for real estate purchases are made through savings and loan associations, as well as banks. If a home does not have an assumable loan, then a conventional loan is another alternative way to fund the purchase. The usual loan application procedures will apply.

If you own a home and have a large amount of built up equity, then there are several options available to you. The first of these is to set up an equity Line of Credit loan. This loan type allows you to draw out available cash from your home.

The second option is to either refinance the existing loan with a new and larger loan. Once again you can use the extra cash to fund the new purchase. When refinancing, you must always consider the cost of the new loan.

If the interest rate on your original loan is much lower, then you are better off taking out a second mortgage instead of refinancing. Calculate the overall repayments carefully of either option.

Whilst the interest rate on a second mortgage may seem high, the overall cost when combined with your original loan rate may still be lower than the cost of a new loan for the same amount.

When searching for a conventional loan, your best bet is to use a mortgage broker. It would take months to research all the products available, and the associated costs (remember: leverage your time).

Different loans attract different fees, so it pays to understand the whole process correctly. Real estate guru and author, Jim Edwards, has written a great book on mortgage lending called: The Ten Dirty Little Secrets of Mortgage Financing and is highly recommended for anyone considering a mortgage loan.

CONSIDER LEASE-OPTIONS

If you do not have sufficient funds for a down payment, you may wish to consider the use of a lease-option to secure the property.

The lease-option is also known as the rent-to-buy. It basically involves you renting a fixer-upper with the option to buy it at a later date. The strategy is discussed in greater detail later in the book.

In a nutshell, you would pay the seller a small option fee, and rent the property at market rent. Since the property is run down, the rent is likely to be substantially low.

You then proceed to rehab the home and find a buyer at the new and increased price. The next step is to exercise the option to buy the home and simultaneously sell it to the purchaser.

This strategy also allows you to control more properties at the one time, as you do not have to tie up all your cash as down payments.

Purchasing and selling with lease options is yet another great way to make big profits or generate a positive cash flow. Two of the best and affordable courses that I have studied is on Lease Options are listed in the Bonus Chapter at the end of this manual.

What is a lease option?

As the name suggests, a lease option is a combination of a lease (an arrangement to rent) and an option to purchase.

What is an option?

An option is the right, but not the obligation to execute a transaction within a given period of time.

There are three parts to an option:

The option has an exercise price. The exercise price is the price at which the transaction will take place. For example: You hold an option to buy a house at some time in the future at an agreed price of $200,000. The "exercise" price is therefore $200,000.

The option has an expiry date. Using the above example, your option may have an expiry date of twelve months. Should you not take up your right to purchase within that time, then the option expires and you forfeit your right.

The option has a fee. The purchaser pays the option fee to the seller. The option seller keeps the fee regardless of whether the option is exercised or not.

Who buys using a lease option?

Purchasers with a high income but insufficient funds for a down payment, and homebuyers who do not qualify for a traditional mortgage loan.

Lease options allow you to purchase a property using virtually no money down. In other words, you can make profits from fixer-uppers without having to actually buy the property. To do this, you take an option to buy, fix it up, and find a new buyer at the new improved value. Learn more about Lease Options.

How does it work?

The purchaser pays you an option fee as a down payment.

The purchaser pays above market rent, which in part is credited against the purchase price. This way, the purchaser is building equity in the property until such time that they qualify for a mortgage loan.

The sale price (exercise price) is set at the new improved value of your fixer-upper.

If the purchaser does not exercise the option, you keep the fee and all the rent. You therefore lock in your full profit from the fixer-upper, and create additional cash flow from the higher rent. You also save thousands on selling costs, as you do not need an agent.

BORROWING THE REHAB COSTS

Finally, a quick word if you are considering borrowing enough money to fund the renovations. Your friendly lender may require you to provide a written builder's quote and contract.

As you read on, you will discover that I do not like to employ a builder to oversee the required work, as their profit margin can eat up most of your profits.

An alternative method may be to take out a second loan, or use your credit card. Whilst the interest rates are higher, there is also less stress in obtaining the funds.

Naturally, you should pay back these funds as soon as you have either sold the property or redrawn the extra equity.

I actually pay for as much as possible with my credit card and pay it off every month. You'll be pleasantly surprised at how those frequent flyer miles accumulate!

CHAPTER REVIEW

Before you do anything, get your finances in order.

Decide which loan is best suited to you.

Work out how much you will really need.

Visit: www.fixerupperfortunes.com

Chapter 9 How to Build Your 'A Team'

The second most important tool that you will need (apart from finance) is a team of experts to help your project run like a well-oiled machine. I like to call this team my 'A Team'.

Your 'A Team' is yet another example of leverage at work. Build a team of experts and leverage off their knowledge and expertise.

You see it is virtually impossible to know everything about everything. Even if you did, you would grind yourself into the ground trying to do it all yourself.

Trust me on this one. If in doubt, go back to Chapter 2 and re-read the bit about time leverage. Experience has shown me that it is false economy to do it all yourself.

Although my background is in real estate sales, I do not sell my own properties. This often comes as a surprise to my workshop clients.

The reason for doing this is that I sometimes do (despite telling you not to) get emotionally involved when a buyer is critical of the property - I'm only human after all.

Employing a broker isn't a reflection on my marketing skills, but rather the fact that I can better leverage my time and make more money elsewhere.

Your 'A Team' will also become a valuable resource in finding property deals - especially lawyers, accountants and realtors. Let them know that you are in the

“Fixer-Upper “ business, and offer to pay them a referral fee when they find you a good deal.

Apart from the obvious contractors, your ‘A Team’ should also include experts from all other relevant areas of property renovation.

ATTORNEYS

When conducting business transactions of any kind, it is always wise to consult a lawyer so as to avoid legal problems. This rule applies equally as strongly to your real estate business. A competent attorney is an essential member of your A-Team.

All documents should be thoroughly examined prior to signing on the dotted line. A good, loyal attorney can also be a great source for finding those "special" deals.

ACCOUNTANT

With taxation laws getting more complex by the day, the need for a good accountant is more relevant than ever. Your chosen accountant should be well versed in property investment.

There is a very good chance that if he/she owns an investment property, then they will know of all allowable deductions and then some.

Let your accountant know what your plans are so that they can best advise you on matters such as ownership structures and appropriate book keeping systems.

Depending on your other interests, these systems need not be too complex. If you are anywhere near as bad as I am with computers, then a simple spreadsheet on Excel will often suffice.

There are also many custom designed programs that are easy to use. Whatever system you choose, be sure to keep accurate records at all times.

Real Estate investment is a business so you will need to keep accurate records for taxation purposes. There are several software products designed for this purpose. The one that I use and recommend is a product called Rentmaster.

The software enables you to produce all kinds of reports for your accountant, and will ultimately save you big dollars in accountancy fees. See the bonus chapter for more information on Rentmaster, and try it FREE for 30 days.

REAL ESTATE AGENTS

Love them or hate them, eventually you will have to deal with agents. During a recent pause in my career, I spent three years buying and selling fixer-up real estate. It would be an understatement to say that my experiences with agents were interesting.

Many books and seminar presenters imply that agents are the devil incarnate. There may be some truth to this view, however selecting and building a strong relationship with a good agent can massively increase your chances of success.

A good agent is an excellent source for finding fixer-upper properties. Some of the best deals that I have uncovered were 'off market' properties where the seller wanted a quick sale.

There is no doubt that you may eventually come across unscrupulous operators. I believe that there are two ways that you can deal with this occurrence: you can either let it get under your skin and develop a negative attitude towards them, or you can simply get over it and accept it as part of doing business.

I strongly advise the second approach. Successful investors view agents as powerful allies, not as evil adversaries.

The old 'do unto others' rule applies. Always treat others as you wish to be treated.

If you are not happy with the service, then move on and find someone else who deserves your business.

You need to find agents who will ring you every time a suitable fixer-upper becomes available.

The key is to find one that specializes in run down properties that are in foreclosure.

A good agent is also worth their weight in gold when it comes time to sell. It can make the difference between a good selling price and an outstanding selling price.

As with anything in life, the best way to avoid becoming a victim to bad advice when buying or selling a home is to learn as much as you can about the process as well as your rights and obligations.

When searching for properties, a useful tactic is to give the agent an accurate description of the type of property that you require, with the added incentive that they will get the property back for resale.

A word of warning: Only make this promise when dealing with an agent that you are comfortable doing business with, otherwise you may find yourself having to list with an incompetent operator. Remember that if you go back on your word, you are unlikely to receive any future assistance from that particular agent ever again. So be careful.

One alternative is to pay an agent a finder's fee to locate fixer-uppers for you, on the understanding that you may not necessarily list it for sale with them.

MORTGAGE BROKERS

Banking policy and conservatism can be one of the greatest hindrances to real estate investors. That's why I never use banks to fund my property purchases (not directly anyway).

Yes, I do borrow from banks or some other kind of lending institution, but I do not approach them directly.

There are simply too many products and options out there. My recommendation is to find a good finance broker who is also a real estate investor.

Just as accountants who own investment properties know all the deductions, a good mortgage broker will be up-to-date on creative financing and various loan options.

Investors should always take care when choosing a broker. After all, this is the real world, and not all brokers will have your best intentions at heart. This can result in the borrower paying heavy fees on their loan if they are not 100% educated. Find out more.

APPRAISERS

Appraisers are an important part of your 'A Team'. Their opinion of value regarding your properties can either make you or break you. Banks are a very conservative lot and will instruct the appraiser accordingly.

The trick is to build up a relationship with appraisers and get them into the habit of valuing your property on your terms, and not the bank's.

When finding an appraiser, I suggest that you first find out (from your trusted Mortgage Broker) which bank panels they represent. Your finance broker may have already struck up a good relationship with some of them. It is well worth asking.

Having properties valued isn't as daunting as it sounds, as long as you are prepared.

Here are some simple rules that will serve you well:

1. Always make sure that you are present when the appraisal takes place.

2. Always point out the improvements to the property.

3. Always have a current list of comparable sales ready to give the appraiser. Often the sales that they refer to can be anywhere up to six months old.

4. Always get a favorable rental appraisal letter from your estate broker.

5. Always ensure that the appraisal is based on recent comparable sales in the area.

6. Always present the property in a clean and tidy manner.

A good appraiser, like other members of your team, should be treated like gold. Their future cooperation will be invaluable.

CONTRACTORS

Finding good reliable contractors can be one of life's greatest challenges. These days, it's hard enough to get them to turn up and quote the job, let alone do the job. Your contractors are without doubt the most important members of your team. Without them, the renovations may never get done.

So what's the secret to finding reliable contractors?

1. Referrals. When you find a good contractor, ask them if they know anyone who can help out with the work. Generally, anyone who is recommended to you will have a reputation to uphold and is likely to do a good job. The key here is to only ask for a referral from a good contractor and not someone that you are not happy with, as their referrals are likely to be of the same ilk.

2. When you do find that 'someone special', treat them like royalty. Finding such people is not an easy task and will require some trial and error, and patience. A certain level of trust will be required on your part, but always be alert and do your research. Even when you have built that relationship, always obtain three quotes.

3. Always make sure that contractors have adequate insurance cover.

4. When using a contract, always make sure that the following areas are covered:

Scope of work: All work to be done should be clearly defined.

Schedule of work: When will the work begin, what time will contractors start and finish each day, when is the completion date?

Insurance: See Rule Number 3.

Materials: What type and how much will be used?

Final clean up: Who is responsible for the site clean up?

One final note of caution: Always inspect work on a regular basis and bring any faults to the builder's attention. One final check should always be done prior to making your final payment.

PROPERTY MANAGER

The last, but by no means least, member of your team should be a competent property manager. As is usually the case, if they own investment properties, they will better understand your needs.

As an investor, you should adopt a long-term view of your property portfolio. Therefore, the use of a specialist property manager will help ensure that your properties are well looked after and that the rent is paid on time.

In most cases, investors will appoint a broker to manage their property. Others prefer to do it themselves and save the associated costs.

Whilst self-management may seem a great way to save a few dollars, you must also consider the responsibilities that go with the job.

The last thing that you need is to be woken up in the middle of the night because of a broken hot water system or a blocked toilet.

CHAPTER REVIEW

If you want to succeed, use an expert team to help you:

- lawyer
- accountant
- real estate brokers
- property manager
- finance broker
- appraisers
- contractors

Chapter 10 The Three R’s: Research, research, and research.

No doubt you will be familiar with the three L’s of real estate: location, location, location.

Before you go out and purchase a property, you must first familiarize yourself with the three R’s of property investment: research, research, and research.

Extensive and thorough research enables you to make correct and informed decisions regarding your investment strategy. Without it, you are simply inviting trouble and potential losses.

Armed with the facts regarding your chosen market, you will be able to easily identify a great opportunity from a poor one. Your goal is to become an ‘area expert’ with an intimate knowledge of values, infrastructure and any other aspects which may affect values in the area.

Your parameters of research should not be limited to the property itself. Thorough research should be applied to all aspects of your decision-making. I recommend that you research the following areas:

FINANCE

The subject of finance has already been covered in Chapter 8, so here is a quick overview of the type of research required.

- Find the most effective way to fund your project.

- Talk to different lenders and brokers.

- Examine both commercial and private sources of borrowing.

- Read the fine print. The cheapest interest rate isn't always the best deal, as the loan may incur heavy penalties for early payout.

- The loan type should always suit your strategy regarding holding or selling.

THE 'A TEAM'

Once again, always talk to more than one expert before deciding which one to add to your team. Ask questions and always obtain names and contact details from satisfied clients.

PROPERTY VALUES

If you want to profit when you buy, then you must have an intimate knowledge of values in your chosen area. By researching your area, you will be able to identify fair market value and therefore, spot that special opportunity when it arises.

Always maintain a detailed record of sale prices in your area. Once you have determined the type of property that you wish to pursue, study sale prices for both original and renovated types.

The following are good sources of information of property values:

- Local real estate brokers.

- County clerk's office.

- Tax assessor's office.

- Real estate appraisers.

The following table shows you how to research values in your area:

COMPARATIVE MARKET ANALYSIS
SIMILAR RENOVATED HOMES IN THE AREA

TARGET PROPERTY:		Date
Bedrooms:	Bathrooms:	Other:
Size:	Price:	

CURRENTLY FOR SALE

Address	Beds	Baths	Size	Price	Mortgages	Days on Market

SOLD WITHIN LAST 6 MONTHS

COMPARATIVE MARKET ANALYSIS
SIMILAR UNRENOVATED HOMES IN THE AREA

TARGET PROPERTY:					Date	
Bedrooms:		Bathrooms:		Other:		
Size:		Price:				
CURRENTLY FOR SALE						
Address	Beds	Baths	Size	Price	Mortgages	Days on Market
SOLD WITHIN LAST 6 MONTHS						

Tables 6.

REHAB COSTS

When referring to rehabs, we are not just referring to the work itself. Other aspects such as the cost of materials are also important. Competitively priced contractors and materials can save you thousands of dollars on your renovation costs. Naturally, a cheaper contractor isn't always the best, so it's worthwhile to exercise caution here. Visit my website to find some useful links for purchasing materials, and remodeling.

CHAPTER REVEIW

- Thorough research is crucial to making the right decisions.
- Research property values.
- Research finance options.
- Research your ‘A Team’.
- Research your rehab costs.

Chapter 11 Select Your Area

Your chosen area will determine not only the “salability” of your property, but also its potential for future capital growth. When we refer to location, we must also evaluate the location within the location.

Property values can differ significantly within the same suburb. Factors such as proximity to shopping malls, main roads and industrial sites can drastically affect prices.

One sure sign that the neighborhood’s values are on the way up is when you see more and more homes being renovated. This type of activity usually leads to an increase in values.

GO FOR AFFORDABLE HOMES

My experience has shown that it is wiser to aim at affordable homes rather than expensive homes. Not everyone can afford to rent or buy expensive homes.

It is therefore logical that fixing up lower priced homes greatly lessens your risk of not achieving a quick sale, or finding a suitable tenant. My 'affordability' pyramid best illustrates this (see Diagram 7). You will notice that as the price/rent increases, the number of people who can afford your property diminishes.

Affordability Pyramid

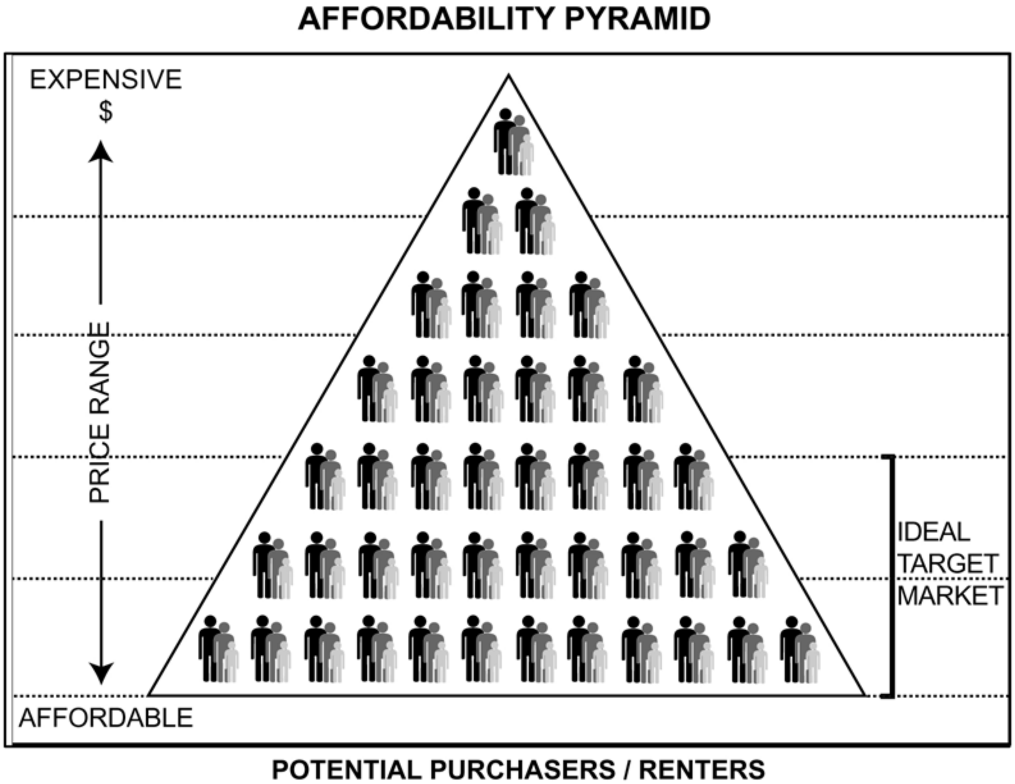


Diagram 7. Affordability pyramid. As the price increases, the number of potential buyers and renters decreases due to their disposable income.

UNDERSTANDING THE 'L' FACTOR

The 'L' stands for 'lifestyle'. People love convenience and as such will tend to purchase or rent in areas that are convenient. One could argue that the 'L' also stands for 'lazy'. It is no coincidence that realtors feature the proximity to malls and transport when marketing a home.

Always remember that people purchase or rent a particular type of property based on their perception of how that property will enhance a lifestyle; anything that enhances that lifestyle has a perceived value.

This is why established suburbs with established services are most sought after and as a result, show strong capital growth.

Homeowners and tenants love convenience and love to live near major facilities. However, they tend not to live right next to them. This is one of the oldest rules of location: Always buy near facilities, but never right next to them.

When selecting a property, never underestimate the power of the ‘L’ factor!

THE SHIFT TOWARDS LIFESTYLE

The Baby Boomers are now at the stage in life where they are achieving their highest income potential and subsequently, have more money to spend. The recent explosion of service industries is proof of changing lifestyles.

Basically, people don’t want to spend their weekends mowing lawns. It also stands to reason that given a choice, they will opt to buy or rent a renovated or modern dwelling as opposed to an old one.

Many Baby Boomers prefer to spend their precious free time socializing with friends and family. This is one reason why established areas with good restaurants and recreational facilities continue to do well when it comes to demand from renters and home buyers.

CHAPTER REVIEW

Understand the shift towards lifestyle and its impact on prices.

For ‘buy hold’, buy in established suburbs.

Chapter 12 Selecting the Right Property

The next step in your quest to finding the best investment property is to decide on the actual property type.

Rule Number One is to select a property that is appropriate for the suburb. In other words, if the area is predominantly old style timber homes, then don’t buy a modern home that is completely out of character with surrounding homes.

Rule Number Two is to only buy properties that need cosmetic makeovers and not major structural repairs. This style of home can achieve far greater prices, due to their appeal to both homebuyers and investors. Homebuyers tend to get more emotional when purchasing a home.

Their decision is more lifestyle focused and therefore they don’t mind paying a fair bit more if they believe that owning the home will help them achieve the lifestyle and status that they are seeking.

BUY THE ‘UGLY DUCKLINGS’

The ‘ugly ducklings’ are the homes that no one else wants. Always remember the ‘L’ factor. Whilst astute investors such as us can see the potential for huge capital gains, others cannot be bothered and would rather purchase a new or renovated property instead.

There is nothing wrong with this approach, however I prefer to keep all of the profits.

COSMETIC REHABS ONLY

The home should have “good bones”. In other words, all the major areas should be in good repair, and the home should only require a quick cosmetic makeover to unlock its potential.

Therefore, only look for properties that require cosmetic improvements. Extensions and structural repairs can prove costly in both time and money.

Structural repairs usually don’t add value to the property, with the only exception to this being when re-blocking is required.

Your aim should always be to add maximum ‘WOW’ factors for minimum cost. Therefore, properties that require a fresh coat of paint and new fixtures are prime targets for property renovators.

Minor works such as painting, new carpets and landscaping can drastically improve the overall value of the home.

A CLEVER LAYOUT CAN ALSO ADD VALUE

No amount of cosmetic improvements can cover up a bad layout. Always ensure the floor plan is practical. Also, look for potential improvements that can enhance the property.

Apart from re-blocking, the only structural work that I would consider undertaking is an inexpensive addition or the removal of a wall. An example of this is a client who closed off the formal dining area and converted the home from a two bedroom to a three bedroom and added an instant $40,000 to the value.

In an earlier project, I moved the kitchen into a large laundry and created a European style laundry cupboard. This enabled me to convert the original kitchen into a study/third bedroom (see Diagrams 8 and 9).

When properties pop up with this sort of potential, you should look at them seriously. The profit potential will usually exceed the costs involved and can be well worth paying that little bit extra for.

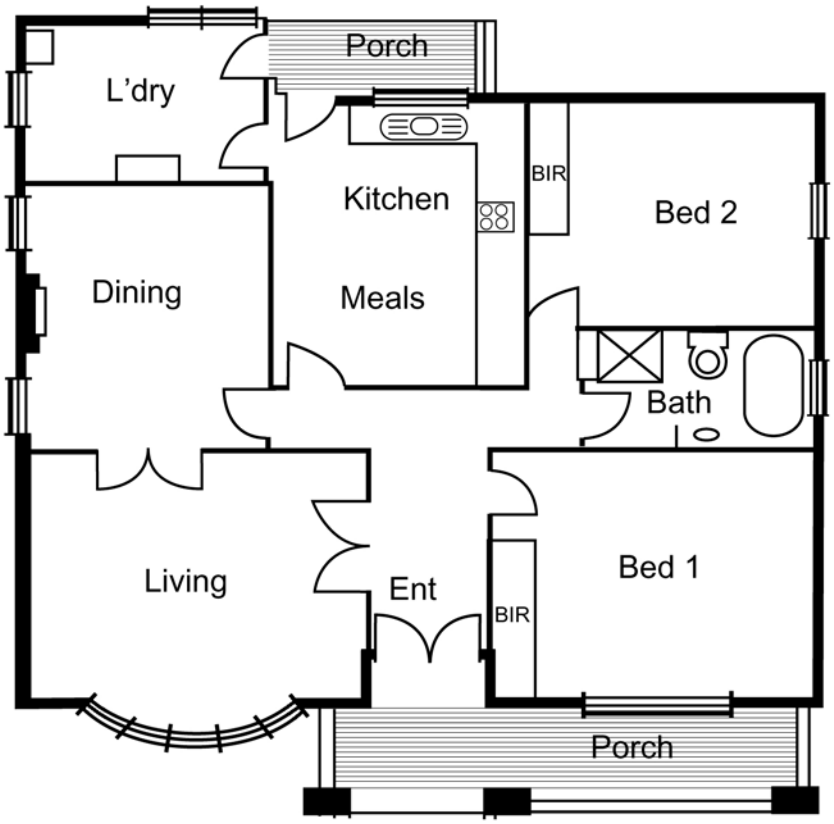


Diagram 8. The original floor plan to a client's property showing a two-bedroom home with a central kitchen and a large laundry.

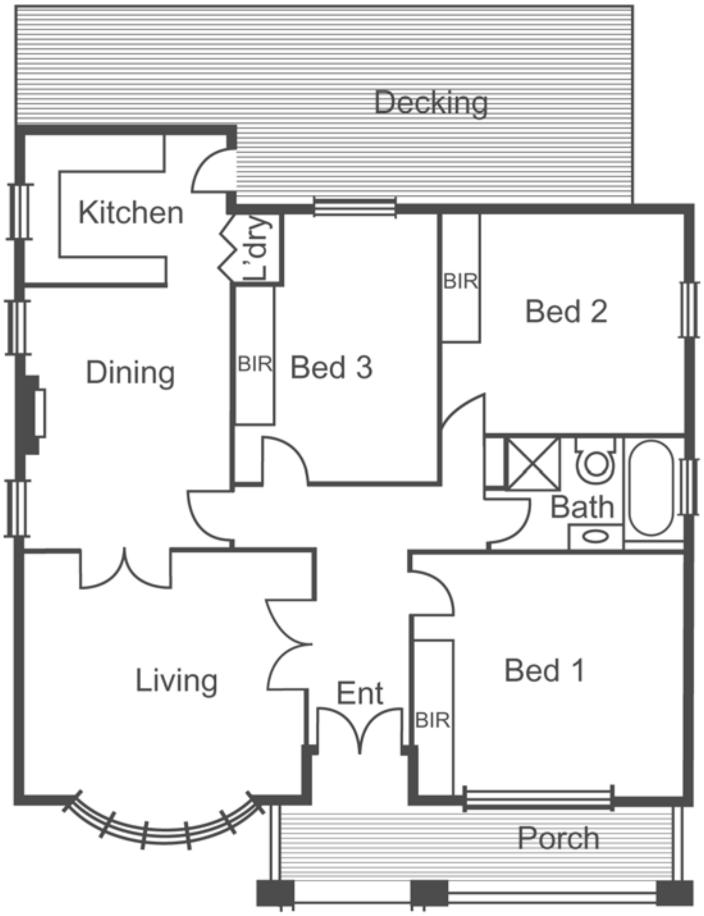


Diagram 9. Shows modifications to the original plan with the kitchen being moved to the laundry and a third bedroom added. The client also added a rear deck. Note: Plumbing was basically left in its original position and the dining room wall was opened out to accommodate a breakfast bar. The changes added approximately $41,000 value to the home.

CHAPTER REVIEW

- Buy the right type of property for the area.

- Buy 'ugly ducklings' that no one else wants.

- Only buy properties that require cosmetic improvements.
- Make sure that the floor plan is functional.

Chapter 13 How to Buy Below Market value

Congratulations! You've done the research, found the property, crunched the numbers, alerted your 'A Team' - it all adds up to an unbeatable deal.

It's now time to put pen to paper and buy it. Securing the property can be a difficult step for the novice investor.

Excitement, fear and even pressure from real estate agents can prove a deadly cocktail and may result in a higher price being paid for the property.

A cold, emotionless approach will serve you well in these circumstances. Remember: be analytical, not emotional.

The secret to buying below market value is two-fold. Firstly you must know where to look for opportunities, and secondly must be able to negotiate the best possible deal.

Always negotiate "Win-Win".

Always look for a solution that gives you the desired outcome, and also solves the seller's problems. As the old saying goes: The easiest way to get what you want in life, is to help others get what they want.

Always remain fair in you dealings, and treat the other party with due respect. There is a subtle difference between hard negotiation and being offensive. The idea is to keep the seller on side so that they are more inclined to reach a decision on your terms.

To learn more about how to buy a home, visit www.fixerupperfortunes.com

THE BEST TIME TO BUY

Technically speaking, the best time to buy is whenever your offer is accepted. If the numbers are right, then go for it.

There are no set rules that apply to the ‘right time’. Instead I have outlined my preferred options that will put you in control of the negotiation process. Dealing with owners who are keen to sell will instantly put you in a strong bargaining position.

Vacant properties

This is one area often overlooked by investors. I make it a rule to always monitor rental properties that become vacant. Vacant properties equal no cash flow for the owner. The more poorly presented the property, the longer it tends to remain vacant. The longer the property remains empty, the more anxious the owner. This also applies to vacant properties that have been on the market for a considerable amount of time.

Motivated sellers

Establishing a vendor’s motivation for selling can prove difficult, as agents rarely give you a direct answer. This is where having reliable agents on your ‘A Team’ can pay a huge dividend. Your attorney and accountant can also be a good source of motivated vendors.

Foreclosures

Another great source of motivated sellers is ‘foreclosure’ sales. Foreclosure property remains a popular way to buy real estate below market value.

Basically, a foreclosure occurs when the rights of the lender are breached.

Who sells foreclosures? Banks and Government agencies sell them. The best part is that these institutions are in need to sell in a hurry, and as such will often sell below market value!

There are three stages when you can buy foreclosures:

Default stage

Auction stage

REO (real estate owned) stage.

Your best bet for a bargain is to deal directly with the owner prior to the property going into the default stage. This is known as the "pre foreclosure" stage.

Getting in before the property goes into default can be very appealing to the seller. It also puts you in a strong bargaining position. The benefit for the seller is that they may still be able to salvage some equity.

If you intend to chase pre-foreclosures, then you will need to implement a targeted marketing campaign to potential sellers. The object of the campaign is to let them know that you are in a position to help them out.

The availability of foreclosure sales will vary at different stages of the economic cycle. As economic conditions deteriorate, the number of owners defaulting on their loans tends to increase.

This is not to say that there are specific times to buy foreclosures. There are deals out there every day. You just need to go out and find them.

Buying foreclosures is a specialty in its own right. Due to the various stages involved, you are strongly advised to consult your lawyer prior to entering into this type of transaction.

How to Buy Foreclosures is a highly recommended and affordable ($9.95) way to learn about the foreclosure system.

Newcomers who seek to purchase foreclosures should familiarize themselves with the various stages and terminology. Otherwise, that great bargain may end up costing you dearly. One of the best systems for buying foreclosures is Massive Foreclosure Profits.

Newspapers

Your local newspaper is an excellent source of vendors who are keen to sell in a hurry. You may even run your own classified advertisement along the following lines: ‘We buy run-down houses. Flexible terms. Quick closing. Call 555 5555 today.’

MAKE AS MANY LOW OFFERS AS YOU CAN

Eventually, one will stick. An agent’s job is to negotiate the best possible price for the seller. They are also required to submit all offers to their clients, regardless of how ridiculous they are. It is not their job to make judgments on behalf of their client.

There have been many occasions when a distressed seller has been happy to accept a lower offer due to their particular circumstances.

Always insist that the offer is written on a contract to show that you are serious. If the broker refuses because they perceive the offer to be unacceptable, politely remind them that they are obliged to present the offer to their client.

Should they still refuse, approach the seller directly.

CONTINGENCY CLAUSES

The following are contingency clauses that I always insert into the contract when making an offer. Wording of these clauses vary from state to state according to legislation, therefore the following are general examples only.

Contingent upon finance approval

Always make the offer contingent upon the approval of finance. The only time to exclude this clause is if it makes your offer more attractive to the vendor. Always include, with the option to remove it as a negotiating tool. If you do remove it, always be 110 per cent certain that you will have no trouble obtaining finance and closing the deal. If your finance is pre-approved, then you will not need this clause.

Contingent on inspection by a Home inspector

Your offer should always be contingent upon to the purchaser (you) obtaining a satisfactory inspection report within seven days of the offer being accepted. This gives you protection should there be any hidden environmental or structural damage to the property. It is also a great opportunity to work out your rehab costs.

If the inspection shows major structural damage, I recommend that you walk away from the deal.

This inspection also allows you point out any hidden faults with the property. You can then use this as a great way to negotiate the price down from your original offer.

Permission to access the property

This is a fairly reasonable request and should not weaken your offer. Here, you are seeking access so that you can obtain quotes for the renovation. I find that by including the provision for at least 48 hours notice to the occupants and limiting this access to two or three times, it usually overcomes any initial resistance from the vendor.

Access to the property via license agreement

A license agreement is simply an agreement between buyer and seller that allows the buyer to occupy the property prior to closing in return for a rental fee (usually market rent). This is a great way to get a head start on the rehab.

One of my favorite tactics is to buy on a 90 days closing and gain access to the property to do the rehab. This allows me to have the property back on the market as soon as it closes.

The key here is to negotiate a lower rent, which is cheaper than the interest costs that you would otherwise have to pay.

This is a better alternative than closing quickly. The ultimate scenario would be to have the property rehabbed and sold prior to closing.

You will notice that this is similar to a lease-option strategy.

A final word about making an offer: The chances are that an agent will be more worried about their commission rather than the final sale price. This puts you in a strong negotiating position.

Always remember that the person most willing to walk away from the deal holds the power. Be prepared to walk away and make this clear to the agent.

I can almost guarantee that they will do their best to convince the seller to take a lower price.

CHAPTER REVIEW

- The best time to buy is when your offer is accepted.

- Make as many low offers as possible.

- Where possible, include the following contingency clauses:

  - Contingent upon finance approval

  - Contingent upon a building inspection

Permission to access the property prior to closing

Permission to occupy via a license agreement

Chapter 14 Get Organized

And so I purchased my first fixer-upper. I stood there excited and with dollar signs in my eyes contemplated the easy money I was going to make. I soon discovered how quickly things could go wrong without a plan.

After all your hard work and research, you have finally purchased what will be your first of many properties. Phew, that was really hard work.

Time to sit back and have a quick break before the property closes, right? Wrong!

Remember how we spoke about time leverage? Well, this is where all that new-found knowledge comes into play.

Pre-closing stage

Use this time constructively to finalize costing and organize your contractors. The objective is to get started immediately after the keys are handed over.

Your first objective will be to arrange for your home inspector to inspect the property as per the sale contract contingency clause. This is the opportune time to carry out your final renovation estimates.

By this stage, you will have prepared a ‘schedule of works’ sheet using your PERT system. Now is the time to ring and coordinate your contractors. Do this as early as possible after you have signed the contract, so as to give yourself enough room to maneuver if a particular contractor is unavailable.

Don’t do as I did with my first fixer-upper, and try and organize them as you go. This is a sure recipe for disaster.

Most of the time the project won’t run like clockwork. There will be times when contractors are early and other times when they are late. This is a fact of life when rehabbing. Accept that this will happen; remain flexible and don’t worry too much. If you have allowed sufficient time to complete the job, there’s probably no reason to worry at all.

Once you have built up a close relationship with your team, you will find that things will run more smoothly with each fixer-upper.

Budget Allocation

Once you have completed your costing, you may well discover your costs exceed 10 per cent. There are two options available:

1. Prioritize the improvements from most important to least important. One point that I emphasize to clients when selling is that first impressions are vital. So do not skip on external appearance, even if it means only painting and landscaping the front of the house.

The trick is to spend your money in those areas where the greater ‘WOW’ factor is created. The rest can be left out.

2. Depending on purchase price, spending that little extra time to finish off the job 100 per cent may well be worth it when you sell. Exercise objective judgment and DO NOT let your emotions come into the equation at any stage - we are here to make money, not win an award.

Post closure

The big day finally arrives. Closure has taken place and you now have the keys in your hot little hands. Savor the moment - even pop the champagne if you so desire. However, enjoy it while it lasts; the real fun is about to begin as you implement your rehab plan.

Should your first contractor arrive on time, then congratulations. You are that rare one in a million creature to enjoy the privilege.

CHAPTER REVIEW

Use the time before closing to organize.

Work out your costs.

Prioritize and allocate funds accordingly.

Chapter 15 Personal Safety

When undertaking rehab work, there are personal safety issues to be considered. Thousands of people are injured every year and some killed whilst undertaking repair work around the home.

Whether it is a rusty nail or a flying shard of ceramic tile, the end result can be painful and messy.

Many of these accidents can be prevented if the correct safety equipment is used and if power tools are used correctly. Fortunately, there is a large range of DIY safety equipment readily available to renovators.

Examples of safety equipment include goggles, earplugs, protective gloves, work boots and dust masks/respirator. You should also include a First Aid kit in your toolbox.

Another cause of accidents is the careless or incorrect use of sharp blades and power tools. Always keep your hands behind the direction of operation to avoid any accidents when using blades or other sharp tools.

One important thing to remember is to keep these tools sharp so that you only need minimum effort to get the job done.

Always read the operating instructions prior to using a power tool. Ensure that blades and drill bits are always fitted correctly.

Regular equipment checks are an absolute must. Never, ever use a faulty power tool.

The use of paint, cleaning agents and adhesive materials can also be fraught with danger. When using these materials, be sure to follow the manufacturer's instructions to the letter and to provide adequate ventilation.

If you are ever in doubt, use one of the pro's in your 'A Team' to undertake the task.

CHAPTER REVIEW

- Thousands of people are injured each year from careless accidents when undertaking repair work around the home.

- Include safety equipment such as goggles, work boots, earplugs, respirator and a First Aid kit in your tool box.

- Take extra care when using sharp tools and power tools.

- Always read and follow manufacturer's instruction.

Chapter 16 Doing the Job - Step by Step

The following chapters set out your step-by-step guide to rehabbing your fixer-upper. Chapters 17 and 18 deal with internal and external improvements respectively.

Quick tips

• Arranging and completing the rehab is another great example where the application of the PERT system can greatly help you get organized.

Before you begin any work it is important for you to determine what, if any, of the work you wish to complete yourself.

To help you decide, here is a quick summary as to which tasks you may be able to undertake and the ones that may be best left to the professionals.

DO IT YOURSELF

- Painting
- Landscaping
- Kitchen face-lifts
- Removal of old fixtures
- Cleaning

- Sanding/filling
- Trash removal

LEAVE IT TO THE EXPERTS

- Major kitchen remodeling
- Major bathroom remodeling
- Electrical repairs
- Plumbing repairs
- Heating/cooling systems

The next step is to draft a ‘to do’ list which lays out a logical sequence for completing each task. This is where your PERT chart comes in handy. Listed below is the order that works for me.

It covers all possibilities so feel free to ignore the ones that don’t apply to your particular project:

1. Decide which items need to be removed. These come out first.

2. Keep any old carpets down. These make great cover sheets and should only be removed when you are either re-carpeting or polishing the floors.

3. Remove any wallpaper.

4. Scrape off any loose paint.

5. Wash down all walls and ceilings prior to sanding and filling. The reason for this is that any sanding will grind grease and grime into the surface and the fresh

paint may not adhere properly. Make sure to cover any electrical switches and fittings, as water and electricity don’t get along too well.

6. Have your electrician and plumber come in and do any work that may be required.

7. Once you have washed everything down, fill any cracks and dents. Once the filler has dried, you may need to sand the areas.

8. Install your new kitchen or bathroom and then have the tilers come in to do their job.

9. Paint.

10. Do the floors.

11. Have your bath resurfaced.

12.Install window furnishings, light fittings, light switches and door handles.

Quick tips

- You will save time by hiring the correct tools and equipment to help you.

- The cost of rubbish removal can add up quickly, so try and pile it up and then hire a larger bin when the job is finished.

See, it’s easy.

CHAPTER REVIEW

Determine which tasks you can complete yourself.

Draft your ‘to do’ list using the PERT system.

Leave difficult tasks such as electrical and plumbing to experts.

Chapter 17 Interior Improvements

The "wow" factor: when prospective buyers or tenants step inside, you want them to say, 'Wow' and literally throw their money at you.

PAINTING

This is an area where big dollars can be saved if you do it yourself.

WARNING: If you are not confident in your ability, then pay someone. Any savings will cost you more when selling due to a poor paint job.

When it comes to deciding on the color scheme, do not allow your personal taste to interfere (unless you are an interior decorator). Apply the K.I.S.S. principle - Keep It Simple Stupid. Give the market what it wants.

My preference is to keep things neutral, with the use of an 'antique white' matte acrylic paint for the walls and ceiling and a semi-gloss/gloss for all trims.

Here are some basic rules when painting:

1. Using one color saves time and money when painting.

You will find that gloss paint at the same color tends to look slightly darker giving a slight contrast. The choice of gloss or semi-gloss will depend on the condition of the trims. Gloss paint tends to highlight imperfections, so take care in this area.

2. Visit your local paint shop to find out what the ‘latest’ colors are.

Feature walls are a great inexpensive way to add some flare to your paint job. Do not use dark colors if a room is small or dark, as this will only highlight the problem.

If the property has dark colors, or there are stains on the walls, then you are advised to use a special sealer. If you don’t, then you will find yourself applying extra coats of paint and that the wall remains stained anyway.

Quick tips

Make sure that all surfaces are prepared thoroughly.

Cheaper paint types do not cover as well as more expensive types. It is therefore false economy to use cheaper paints.

Ask your paint supplier to tint the undercoat at half strength, as this will save the amount of paint that you will need for the top coat.

Another alternative is to apply the paint with a spray gun. I strongly recommend that you seek professional advice if you are considering this method. When spraying, also have a second person following you with a paint roller to ensure an even finish and to fix up any paint runs.

KITCHENS

Kitchen remodeling can cut a big hole in your budget. Wherever possible, a ‘face-lift’ will suffice. This can include new bench tops, wall tiles and repainting cabinet doors. Other low cost improvements include modern door handles, new faucets and wallpaper trims.

If no amount of cosmetic surgery can save your kitchen, then you have no choice but to install a new one. This is a great opportunity to re-configure the kitchen.

Once again, do not go over the top. A basic kitchen will be adequate. Astute choice of colors and the right door handles will create a great effect. When installing a new kitchen, I prefer to use stainless steel appliances for maximum impact.

If you are handy with a screwdriver, then there are many suppliers who can provide 'kit' kitchens that are ready to assemble. This can save you big dollars. Click here to learn about kitchen designs.

Quick tips

- If you intend to rent the property out, then a face-lift should suffice where appropriate.

- Consider using second hand items if they are in good condition.

- Shop around for appliance 'package' specials.

BATHROOMS

'Light and bright' is the aim of bathroom refurbishments. As with kitchens, the condition will determine whether a face-lift or total re-fit is required.

When refurbishing, it is quicker to re-spray the tub, shower, bath and tiles.

If you have the tools, then it will be just as quick and inexpensive to strip the bathroom and install a new one and have it re-tiled.

Finish the bathroom with shiny new faucets, a new shower screen and mirror.

Quick tips

- Bathrooms require special attention when painting, so make sure that you wash them down thoroughly to remove soap scum and mould.

- When renting the property, use good quality semi-gloss paint.

- Use good quality second hand fittings.

- If you intend to do renovations on a regular basis, consider buying tiles in bulk and storing them.

FLOORS

‘WOW’ factor clearly dictates that if the property has good timber floors, then polish them. The only exception to the rule is if the boards are in poor condition.

At the very least, the entrance and living areas should retain the timber floors and bedrooms can be carpeted.

Quick tips

- Old carpets should be left down and used as cover sheets.

- Exercise caution when selecting carpet color and quality for rental properties.

DOORS

Replacement of doors will depend upon the condition of the original doors. Choose a design that is sympathetic to the property style.

Quick tips

- When replacing doors, select a style that will suit the property type. In most cases, four panel doors are an inexpensive way of adding a touch of class.

- White porcelain handles with either a gold or silver trim are very affordable and will suffice in 99 per cent of cases.

WINDOW FURNISHINGS

The type of furnishings that you decide upon will ultimately depend on the type of property and whether you decide to sell or rent the property out.

Timber shutters are extremely popular and add a quality feel to any property. They can however be quite expensive, and I therefore only use them if I am reselling the property, or the property style warrants their use.

One cost saving technique is to install timber shutters on the front windows only and use a lower cost alternative on rear and side windows.

THE FINISHING TOUCHES

Ask anyone who knows something about fashion and they'll tell you of the importance of accessories; without them, it's just another outfit. In property, the same rule applies.

Once you have dressed your property, then it's time to accessorize. Door handles, light fittings and light switches are all accessories that will enhance the appeal of your property.

When it comes to buying accessories for your property, make sure that they are only inexpensive versions and not the expensive type.

Quick tips

- Purchase light fittings and switches during sales and store them for future use.

- Depending on the property type, inexpensive replicas and fittings will suffice.

- Always use a qualified electrical contractor to complete all electrical work.

THE FINAL CLEAN UP

At the risk of repeating myself, I'll say it one last time: You only get once chance to create a good first impression. Regardless of whether you intend to sell or hold the property, you should give it a final clean inside and out. Pay particular attention to windows, kitchen and bathroom, and floors.

CHAPTER review

Total kitchen and bathroom renovations are only necessary if a 'face-lift' is inadequate.

Replace doors as required.

Timber floors provide for great 'WOW' factor.

Painting is a great way to add some flair to the overall appearance.

Do not go 'over the top' when buying fixtures for your property.

Chapter 18 Exterior Improvements

You only get one chance to make a good first impression. Entice prospective buyers to stop and look at your property - don't give them a reason to drive on. It's called "Curb Appeal". Learn 197 Ways to improve the Curb Appeal of your home.

LANDSCAPING

This is one area where thousands of dollars can be spent if you're not careful. In most cases, a few plants and mulch are all that is required. In other instances, a complete overhaul will be needed.

My recommendation is to strip the garden (leaving any established plants in place), installing some decorative edging, re-laying some instant turf and of course, some new plants and mulch. That special touch can be added with some colored pots.

This type of work can be done in one weekend.

Quick tips

- Hire a turf cutter if removing old lawn. These machines are fantastic and will save you hours of hard work.

- Instant turf is the easiest way to add 'WOW' factor to your garden.

- Visit your local flea markets to buy inexpensive plants.

WINDOWS

These are big cost items. If you have chosen the property correctly, then you shouldn't need to replace the windows. Once again, use your better judgment.

ROOFTOPS

Your rooftop falls into the first impression category. If it needs painting, then do it. If it needs repairing, then do it.

Roof repairs should always include the repainting or replacing of gutters.

Quick tips

- Roof repairs are dangerous, so be VERY CAREFUL if you wish to do it yourself.

- Repaint and replace damaged guttering.

FENCES, GATES and PORCHES

We all dream about owning a home with a picket fence, don't we? Running a close second to polished timber floors, this is the single most impressive, major 'WOW' factor item that you should include in your budget.

If you have chosen correctly, your property will have a lovely front fence already and will only require a fresh coat of paint. If not, destroy what's there and stick in some pickets.

Many homes have existing porches. Sometimes these have been closed in or covered to make an additional room. The removal of any cladding or covering will usually reveals the original features and helps create instant curb appeal to the home.

Where an original porch has been removed, it is advisable to construct a new one that matches the original style of the home.

Combine these improvements with a classic paint job and you'll have them lining up for miles. The addition of an inexpensive decking area will also add a great value to the property.

Quick tips

- A stylish porch is a great way to dress up a boring home. Decking is also an inexpensive way to add instant appeal.

- Treat any existing decks with a fresh coat of decking stain.

- Tile over dull concrete porches.

- Where possible, add a stylish mailbox.

- A new front door is a great way to make a first impression.

CHAPTER REVIEW

You only get one chance to make a first impression.

A picket fence, landscaping and verandah will add instant street appeal to your property.

Don't forget to repair and repaint the roof if required.

Replace and/or repaint gutters.

Chapter 19 Buy, Fix Up and Rent

This strategy is appropriate when renting the property generates a positive cash flow, and the investor seeks long-term capital growth.

Therefore, the strategy will be to have the property re-appraised, draw out the equity and duplicate the process. Although the process sounds easy enough, there are a few issues that will need to be considered before you rush out and purchase your next property.

Can you afford to hold the property?

This is especially relevant if the property has a negative cash flow. Careful calculations of your holding costs should allow for potential vacancies, broker fees, taxes and insurance fees.

What’s the best LVR (loan to value ratio) to have?

This will depend on your personal objectives. When you re-appraise the property, the amount of equity that you draw out will determine your LVR. There is no hard and fast rule here.

A higher LVR of 90 per cent means that you can apply more leverage and acquire more properties sooner. The danger of this is that your properties may be cash flow negative, and therefore the more you accumulate, the more ‘out of pocket’ cash will be required to service the holding costs.

With this sort of strategy you land yourself in all sorts of trouble if interest rates go through the roof. Nowadays, I prefer to use an 80 per cent LVR. Your LVR will also determine whether the property is cash flow positive or negative.

You can therefore adjust the loan size to suit your capacity to service the holding costs. For example, an 80 per cent LVR will make your loan repayments lower, therefore requiring less of your own money to hold it.

If you have purchased correctly, the new value of the property should allow you to maintain an 80 per cent LVR and still be able to draw down your original cash outlays.

You are then free to purchase your next property and shouldn't have too many problems with your friendly bank manager.

Generally speaking, if the property does not generate a positive cash flow with 10% to 20% equity (your money), then it may be wiser to sell it

Don't forget the bookkeeping. Remember that you will need to keep accurate records for all transactions. Unless you want to spend hours on a manual system, you should consider purchasing some software such as Rentmaster.

CHAPTER review

Make sure you can afford to hold the property.

Select the appropriate LVR according to your risk tolerance.

The property should be able to show a positive cash flow with 20% equity.

Use a good bookkeeping system.

Chapter 20 Buy, Fix Up and Sell

When selling, the name of the game is to maximize the sale price of your property. Experience in marketing properties has taught me that there are three main factors that will influence the salability of your property. These are presentation, selling agent and price.

Presentation

Everyone seems to remember first impressions. The eventual purchaser of your fixer-upper will want to like it, or better still, love it. If the home looks fresh and well maintained externally, then you are likely to make a good first impression.

Display furniture is a great way to enhance the look of your property. The cost of hiring display furniture should be included in your budget.

If you doubt the value of a correctly presented home, visit a new home display village. What are they selling? You’ve got it: lifestyle.

Take notice of your own reactions when you visit open homes for inspection. You’ll probably find that you react favorably to properties that are attractively furnished and present well.

SELECTING THE RIGHT AGENT

The right agent can be the difference between a sale and a non-sale. Selecting the right agent can be a bit tricky for the inexperienced seller.

Always remember that the job of the agent is to introduce prospective buyers to your property and negotiate the highest possible price on your behalf.

How you ultimately decide to sell your property (use an agent or do it yourself) is your decision.

Readers should investigate and research all options available to them and weigh up the pros and cons of each method. One highly recommended book on the subject is Selling Your Own Home Made Easy.

Another book that I have found invaluable to my business is a book called Home Selling Secrets by Paul Ford. Paul is an ex real estate agent who tells it as it is. *Home Selling Secrets* is a must read if you are serious about buying and selling homes for profit.

When interviewing a prospective agent, there are 10 critical questions that you should ask them. If the agent can't answer, or avoids the questions in any way, then you have the wrong agent. You should also make sure that he/she can back up any statements.

Always remember that you are employing a professional to sell your property. Failure to select the best agent to do the job can and will cost you time and money!

How long have you been selling real estate?

How long have you worked in the area?

Where do you rank in your office?

How many properties do you sell per year?

What is the best method of sale for my property? Why?

What is your marketing plan?

Will you release me from the sale authority if I am not satisfied with the level of service?

What systems do you have in place to generate buyers for my property?

Will you provide us with regular feedback on the progress of the sale? How often, and how will you do this?

Do you have a list of references that we may call?

Other factors to consider when selecting an agent are:

Do they return your calls promptly?

Do they take the time to explain procedures correctly?

Can they offer a solution to your needs?

Do they seem knowledgeable about their market?

Be honest with yourself. If you can answer yes to these questions, then you've probably found a good agent. Persistence is a great attribute to find in an agent. Agents, who don't give up until they win your business, generally pursue prospective buyers for your property in the same way.

Price

Getting the best possible price for your home and selling it sooner rather than later is no doubt the result you want.

There is an old saying in real estate, that 'price turns glass into diamonds'. The point is that priced correctly, everything sells. Price should not be an issue if you have calculated the numbers correctly from day one. You should however, determine an ideal price (also known as your dream price) and a walk away price. The walk away price is like a quick sale price. You will need to exercise your own judgment when setting these prices.

If your intentions are to turn the property over and move on to the next one, then consider selling once an offer has been received within your range. It is easy to convince yourself that you may get a higher offer later on. But what if you don't accept it and two months later you receive the same price offer?

If turnover is the name of the game, then sell and get on with the next one. This doesn't mean taking any old offer, especially if you are certain that the property should fetch a certain price as a minimum.

It is very important to set the right price for your home. A price based on the market rather than your needs. Don't confuse how much money you need with how much the market will pay.

Here are some pointers that will help you to be realistic when determining your price.

1. Recent sale prices of properties in the area similar to yours

To get an idea of the range, look in the local papers, attend open homes, or ask your agent.

2. Properties in the area similar to yours competing for sale at the same time

For instance, if yours is the only 3-bedroom home for sale in the area at the time, then you can expect competitive offers and a healthy return. And of course, less so if there are lots of others like yours on the market.

3. The strength of your marketing campaign

The more buyers you can attract to your home, the more chance there is of creating competition and getting a higher price for it.

Your agent will have ideas for a comprehensive marketing campaign for your home including signboards, direct mail and local advertising.

The agent should also have a comprehensive buyer database and be highly active and well known in the area with a good reputation and high visibility.

Your individual marketing campaign should be designed to promote your property to the market and should be based on your individual requirements.

4. Type of buyer/reason for purchase

Investors will be looking for a certain price point from which they can make good returns and are less likely to be emotionally involved in the purchase. Your home type and the type of buyer will affect price.

5. Personal

An individual's personal desire to own a particular home will also have an impact on the price that they are prepared to pay for it.

CHAPTER REVIEW

Present the property in ‘Display Home’ condition.

Price the property realistically.

Understand all factors that will influence the selling price.

Choose the right agent to sell your home.

Chapter 21 Buy, Fix Up and Wrap

Wrapping a property simply means that you purchase a property and on-sell it to a third party for a higher price and with vendor finance. In your case, the price would be as per the new valuation once the property has been renovated.

You then carry the loan on behalf of the end buyer and charge them for doing so. For example, your loan rate is 6.5 per cent, and you finance the property to the end buyer at 8.5 per cent.

You therefore make a margin of 2 per cent on the loan.

The 'buy, renovate and wrap' strategy has the potential to pay off handsomely if executed correctly. Let's use a simple scenario whereby you purchase a $100,000 house and renovate it. According to our formula, the numbers would be as follows:

Purchase price	$100,000
Stamp duty / costs	$7,000
Renovation costs	$10,000
Total	**$117,000**

Table 7. Purchase costs.

Assume 10 per cent cash down payment, and your capital input is $27,000. The original loan is $90,000 (90 per cent LVR).

The appraisal of the renovated property comes in at $140,000.

Using our strategy, you then increase the loan to 90 per cent of the new value, or $126,000. This equity redraw allows you to recover your original capital input of $27,000 PLUS an extra $9,000 capital profit.

You are now holding a $140,000 property with none of your own money down. Let's assume that you are making a 2 per cent margin on the loan, your annual positive cash flow will be $2,250, or $43 per week.

Ten such transactions in one year would earn you $100,000 in capital profit and an ongoing residual income of $22,500 per annum for the next 25 years.

CHAPTER REVIEW

Wrapping your property is a great way to have a positive cash flow.

Depending on how much equity you wish to leave in the property, you may redraw all of your capital input, plus some capital profit.

It is feasible to achieve an infinite return on your investment.

Chapter 22 The Lease Option

If you are looking to sell your fixer-upper and don't need much cash immediately, the best way to get your full asking price and/or higher rent, then you should consider using a lease option. Earlier in the book we discussed how to use a lease option to purchase, so let's look at what a lease option is, and how you can use them to generate a steady income stream.

WHAT IS AN OPTION?

As the name suggests, a lease option is a combination of a lease (an arrangement to rent) and an option to purchase.

An option is the right, but not the obligation to execute a transaction within a given period of time. The holder of an option has the right, but not the obligation to purchase a property. The seller of the option is obliged to sell the property at a pre-determined (exercise) price if required.

There are three parts to an option:

The option has an exercise price. The exercise price is the price at which the transaction will take place. For example, if I hold an option to purchase your home with an exercise price of $200,000 I can choose to exercise this option and buy the home for $200,000 or not exercise the option and walk away.

The option has an expiry date. The expiry date is when the option to buy will expire and become invalid. This date can vary and will need to be negotiated between parties.

The option has a fee. The option fee is paid by the purchaser to the seller, and is negotiable. In effect, the purchaser is buying ‘time’. If the option expires then the seller keeps the fee.

What is a lease option?

A lease option is where the option to purchase a property is combined with a lease. This gives the option holder the added bonus of being able to occupy the property prior to purchasing it.

Who buys using a lease option?

Purchasers with a high income but little savings are often prime candidates. These people may also have difficulty in qualifying for traditional mortgages.

How does it work?

The basic set up of a lease option deal is as follows:

The purchaser pays you an option fee as a down payment. This fee is usually deducted from the purchase price once the option is exercised.

The purchaser pays above market rent, which in part is credited against the purchase price when the option is exercised. This way, the purchaser is building equity in the property until such time that they qualify for a mortgage loan, and then exercise their option to purchase.

The sale price (exercise price) is set at the new improved value of your fixer-upper.

What are the benefits from selling with a lease option?

Using the lease option approach gives you many advantages:

Top dollar for your property. Purchasers who would otherwise be unable to buy will be most grateful and are often happy to pay a little extra.

No agents fees when selling, saving you thousands of dollars.

Increased cash flow. Many of the running expenses can be passed on to the purchaser. You do not have to pay management fees.

Control of the sales process.

Profit even if you don’t sell. If the purchaser does not exercise the option, then you get to keep the option fee, and you will also have received above market rent.

Win-win. You get a great price and cash flow, and the purchaser gets the opportunity to buy a home that they may not otherwise have been able to.

As you can see, lease options are a powerful way to lock in maximum profits and generate excellent rents. Like foreclosures, lease options are simple yet quite involved, but once you fully understand their power, you may never rent out a property in the traditional way again.

Don’t forget that you can also use them when purchasing a fixer-upper, and have control of it using only one or two thousand dollars of your own money. This means that instead of only buying one fixer-upper, you could buy two or three simultaneously.

Now that’s what I call leverage!

Chapter 23 Now, It's Your Turn

Congratulations on coming this far. You are now equipped with your step-by-step plan to find, buy and fix up run-down homes and sell them for big profits. The rest is now up to you.

Success doesn't just happen. You need to make it happen. Success is the result of action, combined with an action plan and persistence to implement that plan.

Believe that you can and you will. Whatever you do, do it with integrity and sincerity and you will attract other successful people into your life that will help you realize your dreams.

Never give up. When faced with problems, always refer back to your plan for direction. Use the success of others to inspire you to great heights and don't let the knockers tell you otherwise. Give freely of your time and energy to help others and you will be repaid tenfold.

So, now it's your turn. Put down this e-book, take out a pen and some paper and start drawing your action plan.

CHAPTER REVIEW

Plan the work, and then work the plan.

Believe that you can and you will.

Be inspired from other's success.

Success doesn't just happen. You have to make it happen.

Help others when the opportunity arises and you will be rewarded tenfold.

SPECIAL BONUS CHAPTER

Recommended Reading

Real Estate Fortunes is primarily aimed at teaching you how to make big profits from fixer-uppers. As you can see, it is only one piece of the puzzle known as real estate investing. Therefore, I have added this bonus chapter to help you with your further education.

The following are products that I have purchased and evaluated. They will help educate, and organize your business for optimum profits. These products come highly recommended, and they are all covered with a money back guarantee. If you are not satisfied with their performance, please write to me at support@fixerupperfortunes.com

To find out more click here and follow the index links.

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Personal Success The Millionaire Mindset Secrets of Wealthy Creation Wise Women Win Your Attitude, Your Self-Esteem	 Boris Vene & Nikola Grubisa Charles Goodwin Patty Baldwin & Teresa King Teresa King

Glossary of Terms

Acceptance. A legal term denoting acceptance of an offer. A buyer offers to buy and the seller accepts the offer.

Access Right. The right to enter and exit one's property.

Agreement of Sale. A written contract between the buyer and the seller.

Acknowledgment. A formal declaration before an authorized official (usually a notary public) by a person who has executed (signed) a document, the he did in fact execute the document.

Amenities. Attractive or desirable improvements to property.

Appraisal. An estimate and opinion of value resulting from an analysis of pertinent data.

Appreciation. Increase in value of property.

Assignee. One who receives an assignment.

Assignment. A transfer of any property, real or personal.

Assignor. The owner of the assigned property.

Assumption of Mortgage. The agreement of a buyer to assume the liability of an existing mortgage.

Breach. Violation of an obligation in a contract

Broker, Real Estate. A broker licensed by the state to carry on the business of operating in real estate.

Capital Gain. The gain realized from the sale of an asset, less the purchase price and deductible expenses.

Cash Flow. The owner's spendable income after deducting operating expenses and debt service.

Closing. The moment when all documents are executed and recorded and the sale is complete.

Closing Costs. Expenses incurred with the sale of real estate, such as appraisal fees, loan fees.

Conditional Sales Contract. A contract for the sale of property where the buyer has possession and use but the seller retains title until the conditions of the contract have been fulfilled.

Construction Loan. The short term financing of improvements on real estate.

Contract of Sale. Same as a land sale.

Conventional Loan. A loan that is not backed by the federal government through FHA or VA.

Conveyance. The transfer of the title to land from one to another.

Covenants. Agreements written into deeds and other instruments stating performance or non-performance of certain acts or noting certain uses or nonuses of the property.

CPM. Certified Property Manager.

CRV. (Certificate of Reasonable Value.) An appraisal of real property by the Veterans Administration.

Deed. A written instrument that, when executed, conveys title or real property.

Default. Failure to fulfill or discharge an obligation, or to perform any act that has been agreed to in writing.

Deposit Receipt. The form used to accept the earnest money deposit to secure the offer for the purchase of real estate.

Depreciation. Loss of value of an asset brought about by age. Percentage reduction of property value year-by-year for tax purposes.

Down Payment. Cash paid toward a purchase by the buyer.

Encumbrance. Anything that affects or limits the fee simple title to property, such as mortgages, trust deeds, easements, or restrictions of any kind.

Equity. The value an owner has in property over and above the liens against it.

Escrow. A neutral third party who carries out the provisions of an agreement between two parties.

Exclusive-Right-to-Sell Listing. A written contract between broker and owner where the broker has the right to collect a commission if the property is sold by anyone during the term of the agreement.

Fair Market Value. The price a property will bring if buyer and seller are both fully aware of market conditions and comparable properties.

FHA (Federal Housing Administration). The federal agency that insures first mortgages on homes, enabling lenders to extend more lenient terms to homeowners.

First Mortgage. A mortgage having priority over all other voluntary liens against a specific property.

Fixtures. Items affixed to buildings or land usually in such a way that they cannot be moved without damage to themselves or the property, such as plumbing, electrical fixtures, and trees.

Installment Note. A note that provides for regular monthly payments to be paid on the date specified in the instrument.

Instrument. A written legal document.

Investment. The putting up of money with the intent of making a profit.

Land Contract. A contract for the sale of property where the buyer has possession and use, but the seller retains title until the conditions of the contract have been fulfilled.

Lease. A contract between the owner of real property, called the lessor, and another person, referred to as the lessee, covering the conditions by which the lessee may occupy and use the property.

Lease Option. A lease in which the lessee has the option to purchase the leased property. The terms of the option must be set forth in the lease.

Lien. An encumbrance against real property for money, including taxes, mortgages, and judgments.

Listing. A contract between owner and broker to sell the owner's property.

Market Value. The price a buyer will pay and a seller will accept, both being fully informed of market conditions.

Mortgage Broker. A person who, for a fee, brings together the lender with the borrower.

Notary Public. One who is authorized by federal or local government to attest authentic signatures and administer oaths.

Note. A written instrument acknowledging a debt and promising payment.

Offer. A presentation to form a contract or agreement.

Open Listing. An authorization given by an owner to a real estate broker to sell the owner's property. Open listings may be given to more than one broker without liability, but only the one who secures a buyer on satisfactory terms receives a commission.

Option. A right given, for consideration, to purchase or lease property upon stipulated terms within a specific period of time.

Principal. The amount of debt, not including interest.

Purchase Agreement. An agreement between buyer and seller denoting price and terms of sale.

Realtor. A real estate broker holding membership in a real estate board affiliated with the National Association of Realtors.

Rent. Considerations, usually money, for the occupancy and use of property.

Secondary Financing. A junior loan or a loan second in priority to a first mortgage or deed of trust.

Security Deposit. Money given to a landlord by the tenant to secure performance of the rental agreement.

Tenant. The holder of real property under a rental agreement.

Variable Interest Rate. A fluctuating interest rate that can go up or down depending on the going market rate.

Wraparound Mortgage. A second mortgage that is subordinate to, but includes the face value of the first mortgage.

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