FIND AND FINANCE THE MOST PROFITABLE INVESTMENT PROPERTIES

REAL ESTATE INVESTOR'S CHECKLIST

- **Must have-information on cash flow, tax strategies, property management, and timing a sale**
- **Fool-proof advice on how to find the most profitable properties for investment**
- **Includes single-family homes, multiplexes, apartment buildings, and commercial properties**

ROBERT IRWIN

AMERICA'S #1 REAL ESTATE EXPERT

Real Estate Investor's Checklist

Everything You Need to Know to Find and Finance the Most Profitable Investment Properties

Robert Irwin

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Preface

WHY AN INVESTOR'S CHECKLIST BOOK?

This book (in this series) is unique. It's aimed squarely at buyers whose primary motivation in purchasing real estate is not habitat, but profit.

There are over 65 million homeowners in this country, and every one of them probably considers himself/herself a real estate investor. After all, during the last decade, if you bought a house, lived in it for a while, and then sold it, you probably made money—sometimes a lot of money. But to be a real estate investor involves more.

It means finding properties that will turn a profit either immediately or over the long haul through serial investing. It means knowing how to get the best financing. It includes understanding market cycles and knowing the optimum times to buy . . . and sell. It includes expertise in evaluating property so that you don't overpay or get stuck with a lemon. And so much more.

In short, a successful real estate investor needs more than dumb luck. He or she needs techniques that work. In the past, these were only honed from sometimes painful experience.

That's where this checklist book comes in. It has evolved from my own experiences in real estate as well as those of many other successful investors. You don't need to reinvent the wheel by making everyone else's mistakes on your way to successful real estate investing. This book gives you a list of what you need to know and then shows you how to get started doing it. It's one-stop shopping.

Try a few pages. You'll find you quickly fall into the flow of the format. You'll be picking up knowledge even as you casually read entertaining observations and commentary.

If you've always wanted to get started investing in real estate, but didn't know where to begin, even if you're already an investor with properties, you'll find that this checklist book comprehensively shows you how to do it. Just check off the paragraphs on your way to true expertise.

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1

How Will You Make Your Profit?

QUESTIONS TO ASK YOURSELF

Can the property be put to a higher, better, and more profitable use? ☐

Changing the use of property is one of the oldest and smartest ways of making money in real estate. John Jacob Astor was one of the first to try it in this country in the early 1800s when he converted cow pastures in Manhattan to residential and commercial buildings, making a fortune along the way. Recently a friend I know bought an old nonproducing orange grove of 10 acres at $50,000 an acre, spending a total of half a million dollars. Then he cleared the dying trees and subdivided into lots for homes—five lots to an acre. He sold each homesite for approximately $50,000. Since he now had 50 sites, that came to $2,500,000. He made a profit of $2,000,000 before expenses (which were not insubstantial). All of this came about because he changed the usage of the property from agricultural to residential. Other changes can include small splits of a lot or home into two units instead of one (described below), or creating a big commercial usage when there was previously a multifamily residential usage. Of course, changing usage often requires approval from the local planning department, which can be anything from easy to impossible to get. However, if you do get approval for a usage change (or the property was previously zoned for a higher use), there is usually a big profit to be made. Remember, your goal as a real estate investor is to make money, and one of the fastest ways to make it is to buy a property and upgrade its use. This is an important concept that too few investors remember or fully understand. To this day, opportunities for usage change remain in most communities. For more insights into this, check out Chapter 17.

Can the property be split? ☐

This is a case of buying one and making it into two (or more). If done right, splitting can result in substantial profit for the investor. A typical split starts with buying a large lot. Once you have ownership, you split the lot into two. Now you have two lots, which, depending on the circumstances, may each be worth nearly as much as the original lot. You sell one and have the other virtually free. Or you sell both to make your profit. (Of course, each of the lots must conform to minimum zoning size.) Variations on this theme include buying a large lot with a house on it, then selling off a portion of the lot and keeping the house as a rental. In San Francisco, where many areas are zoned for duplexes or multifamily dwellings, a split can occur when a single large home is split down the center to make a duplex (or two units). Sometimes a large home of several floors is converted to a condominium with each floor being a separate unit. Each time you split the property, you multiply your profit. A savvy investor will always be looking at properties with an eye toward being able to create a split. No, this doesn't always happen in suburbia. But it is common both in rural and in urban areas. Just be careful that you comply with all building and zoning regulations. (See also Chapter 19.)

Can the property be flipped? ☐

Flipping is the fastest way to make money in real estate. It means selling the property for a profit as soon as you buy it, or, in some cases, even before title passes to you. I encourage you to flip a property whenever possible. It generates ready cash that can then be used for other real estate investments. However, it's important to know the limitations of flipping. (See Chapter 14.) One of the important steps in assessing an investment property is to determine its potential for flipping. Generally speaking, this is easy to do. If you can buy the property for well below market, you are in a good position to flip it. On the other hand, if you're buying close to market, unless you're in an area of very rapid price appreciation, flipping is usually not practical. Most flipping is done by two methods. One is buying an option, which is an agreement that gives you the right, but not the requirement, to purchase some time in the future. You then sell the option to a rebuyer and pocket the difference between your option price and your selling price. The other method is by assigning a purchase agreement to a rebuyer before escrow closes. In either case, you do not take ownership of the property, do not have to worry about financing it yourself, and can often make a hefty profit. Both techniques, however, can be tricky and you should use the services of a professional such as an attorney to be sure you handle them correctly.

Can the property be held? ☐

The most common way of making money in real estate is to buy and then hold for the long term. If you look at the value of real estate over the last 60 years, you will quickly see that overall it has always gone up. (Check out the Commerce Department statistics at www.commerce.gov.) Of course, prices have declined during certain periods and in certain areas. But the trend in almost all areas is up. Thus, what many investors do is to become serial purchasers. They buy one property, rent it out, and then hold. After a time they buy another, and then another. Over years their equity increases as the tenants pay down the mortgages and the prices go up. Many millionaires in this country got started in just this fashion. (See also Chapter 14.)

Can the home be "scraped"? ☐

Sometimes the value of a rental property is not in the building, but entirely in the land. This is often the case where prices have risen rapidly and there's an older stock of smaller homes. A good example is the San Fernando Valley near Los Angeles. Many homes were built there after the Second World War through the fifties and sixties. They tended to be smaller homes, sometimes with three bedrooms and only one bath, often under 1,500 square feet. However, because land was cheap in those days, these homes were often built on quarter acre or larger