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Summary

Preface

A sustainable cash flow is at the heart of any successful real estate business. There is an old lesson in real estate industry that if the property does not have a cash flow, it is not a deal. A good real estate deal must be crosschecked number of times before you go for that. Some of the particulars required to be inspected include leverage, equity, cash flow, appreciation, and the risks involved.

After many years of trying different strategies to make money with real estate, any experienced real estate investor will tell, without the slightest hiccup that it is not a sound idea to buy houses that do not pencil out on the day you acquire them or shortly thereafter. There is only one reason in the world that I know of to buy investment real estate, and that is to make money along with generating and maintaining positive cash flow. If your investment does not do that, you are wasting your precious time and money.

This ebook intends to provide a deep insight into building and maintaining cash flow in the UK and US real estate market. This ebook is for everybody. For those who aspire to be a property owner, or a cash flow generating kind of investor or those who do not have a lot of starting capital, this ebook is a pretty intelligent way to begin. Let's go exploring.



Chapter I

Positive Cash Flow - The Key To Longevity In Real Estate Business

When you own properties and land, it is just like having your own personal money machine. However, it is obvious that if you want to make your property and land work as a money machine for you, you must maintain the property and provide the necessary management. If you are capable enough to do that efficiently, in exchange, you control the cash flow - the money is yours to spend any way you choose. Owning your own widgets is the surest path to financial independence. The basis of wealth behind almost every rich person can be traced back to the ownership of a patent, a copyright, a deed or a property. Owning real estate properties with positive cash flow puts you in with the right crowd. Owning investment property is much more enjoyable if you are making money along the way.

I.A. Getting Your First Investment Property

If you do not already own a property, and are looking for the ways to build positive cash flow for you, this is the time to get your first investment property. A primary residence is the best choice at this stage because interest rates and down payments are considerably lower. This eventually saves you from dealing with finding and managing tenants or absorbing the cost of an occasional vacancy.

I.A.(i). Look For Less Expensive Homes

While you are looking for your first investment property that could generate the positive cash flow for you, it is always prudent to concentrate your search for less expensive homes. Such properties are generally easier to rent for a profit than higher cost houses. When it comes to generating and maintaining a good cash flow, it is always better to purchase two or three smaller homes rather than one large

one. Both require you to invest almost the same amount, but the earlier offers you even greater cash flows. There are several ways to achieve a positive cash flow on your investment properties, depending upon the financing options available in your area of the country. Let me give you an insight into some of them.

I.B. Financing Your First Real Estate Investment

As emphasized before, your first "investment property" should be your home. One of the major reasons is that owner-occupied residences are the easiest to finance. There are several ways to finance the purchase of your home. Some of the low-cash options include the following.

- Lease-options,
- Seller financing, and
- FHA, VA and PMI (private mortgage insurance) mortgages

I.B.(i). Obtain A Loan With A Very Low Interest Rate

While you are looking for your first investment property, you should try to obtain a loan with a very low interest rate, at least for the first few years. This is in fact one of the easiest ways to achieve positive cash flow. Payment option loan is one of such loans, but the problem is that these types of loans are not available in all the states of the UK and the US. The good thing with this type of loan is that it allows you to set up an optional minimum payment. This way, you can easily choose to go for the low monthly payments, usually at least for the first five years. You will be amazed to know that during these initial few years, your minimum payment will increase by a very small amount every year, which is usually no more than a factor of 1.075. However, you must note that this is how the minimum payment chosen by you will increase without adversely affecting the amount of interest. The interest will continue to accrue at whatever rate you have agreed on, such as 4-percent, but again, the good thing is that interest that your payments do not cover, will be deferred. This differed interest is added on to the loan at the end of the first five years and the loan turns into a standard variable rate loan. However, since the value of the property is likely to

have increased enough to cover the deferred interest, that is usually not a big problem.

I.B.(ii). Interest-Only Loan

Interest-only loan is another great way to minimize monthly interest payments. The usual tenure for most of these loans is five to ten years. During this time, all you have to pay is just the interest on the loan. However, in order to make this type of loan work most effectively for you, it is always prudent to sell or refinance the property by the end of the loan period.

I.C. Single Unit Investing or Multi Units Investing

Real estate is all about finding great deals and building huge wealth along with generating and maintaining a substantial positive cash flow. Whether it is single unit investing or multi unit investing, you can build your wealth empire by investing in both or either. However, there are still many people who are unable to understand whether they should go for single unit investing or multi units investing. Well, when it comes to cash flow, multi units investing definitely gets an edge over single unit investing. The cash flow is always greater in multi family than that of single-family houses.

The greatest risk in having a single-family house is that when you lose your tenant, this directly affects your cash flow and puts an instant brake on the same. Eventually, you lose all your income. On the other hand, this is not the case with multi units investing. When you invest in multi-unit properties, you do not have to face such risks. Let me tell you how. Suppose, you own three units or say apartments, and you lose one tenant, you still have two rents coming in to pay your expenses. This way, the cash flow does not suffer that much.

On the other hand, you do not have such privilege in single unit investing. Sometimes, you may even lose your entire profit for the year. That is the reason why I say that when it comes to maintain a positive

cash flow, it is always prudent to have more units under one roof. The more will be the number of units, the lesser will be the risk. Furthermore, the greater cash flow in multi units investing leads to several other benefits as well. For example, the better cash flow allows you to hire management companies to manage your tenants.

This way, you can easily save yourself from the hassle of managing and dealing with your tenants. At the same time, since you do not need to have contacts with your tenants, you earn yourself the precious time which you can use to invest in wholesale, retail, pre-foreclosure, rehab, subject to and lease option apartment houses as well. However, I do not deny that flipping single-family houses has its own advantages. However, along with single-family houses, if you add multi-units also to your portfolio, it will create more wealth for you at a much faster rate. Again, when it comes to cash flow, multi units investing is always a better choice than single unit investing.

I.D. Myrtle Beach Real Estate - A Guaranteed Positive Cash Flow

Investment in Myrtle Beach real estate properties is a sure-fire way to have a positive cash flow right from the very beginning of your investment. You must have good rental income if you want to achieve a good positive cash flow. Moreover, the good news is that you can easily find quality tenants in Myrtle Beach. However, there are certain rules and strategies that you must follow in order to avoid being caught in any unpleasant circumstances.

For example, it is very important for you to check the credit and employment history of your tenants before you go ahead. If you are planning to make an investment in real estate properties, you can start by investing in Myrtle Beach real estate. There are tremendous possibilities that may include the new condos and fixer uppers, which are just ripe for profit. It can be an excellent way to grow your wealth rapidly. Myrtle Beach real estate properties cannot only generate a

great monthly income for you, but you can also get a tremendous return on your investment when you sell these properties.

I.E. Austin Investment Property - Find Some Of The Best Cash Flow Properties

When it comes to cost, there is literally no other market, where the cost of making investment in various investment properties is as low as in Austin investment property. You can find some of the best cash flow properties in the working class neighborhoods while some of the best equity appreciation potential properties in more affluent neighborhoods. Austin promises a market about which experts feel that it is poised for a tremendous boom in the coming year. This leads to a clear conclusion that if you are an innovative and forward thinking real estate investor and you get into the game of real estate investment now, you are certainly going to reap substantial benefits in the coming years.



Chapter II

Wholesaling Houses - An Impressive Tool To Generate And Maintain Positive Cash Flow

Cash flow is one of the most crucial elements that determine the success in your real estate career. Even if you are counting on rising property values to make a profit on an investment property, it is far more desirable to have a positive cash flow each month. You are looking for an effective way to have enough reserve capital and then some to weather the bad times, and to make you significant cash right now while you build on your equities and the home-run deals being either rehabs or getting tenant or buyers qualified for loans on your subject-to deals for the paydays.

This is where wholesaling houses can help you accomplish having a system that can put on autopilot that makes deposits into your bank account so you can spend from it month-in-month out. When it comes to generate a substantial positive cash flow each month, wholesaling houses make one of the best major recourses. Therefore, if you find yourself unable to build good cash flow each month from your sizable real estate venture, you can get it fixed with the help of wholesaling houses. It provides you a system that you can use to make significant amount of cash instantly, while building on your equities simultaneously.

Many investors hesitate investing in wholesaling houses because as per them, it is sheer luck to generate some good profit from the wholesaling houses. Well, I must say that is not true. It entirely depends on your planning and strategies, and luck has nothing to do with your success in the wholesaling houses.

II.A. What Makes Wholesaling Such A Great Cash Flow Generating Tool

Some of the reasons why people prefer investing in real estate may include “accumulation of long-term wealth”, “generating and maintaining good positive cash flow”, and “large capital gains”, such as rehabs & subject to loan payoffs. There are many reasons that make wholesaling houses an ideal cash flow generating tool. Wholesaling houses can put quick cash in your bank account. It is not an exaggeration if I say that there is no other more sure-fired way to get there than wholesaling houses. Some of the tremendous features of wholesaling houses are following.

- ZERO credit needed
- ZERO down payment money needed
- ZERO liability

So, what is your excuse now for not wholesaling houses? Even if you are a novice or a professional real estate investor, you can easily succeed in making a good deal in wholesaling houses. All you need to do is to work on a proper strategy, and you can easily gain a significant amount of cash. This amount equates to the amount that is needed for more than a dozen rent-income producing properties possibly on a monthly basis to cash flow.

Now just think if everybody pays their rent on time and you have more than a dozen deals a month, you can have significant disposable income to take care of your personal needs. Thus, wholesaling houses provide you an opportunity to simply focus on your real estate business, as you do not need to panic on deals such as rehabs that take some time to come to fruition. Using wholesaling houses, a large part of your real estate business focuses on finding properties with Subject-To's, that is, with existing financing taking over payments. In this regard, there are two components that can help you accomplish this - deals available and the qualified buyers. Make sure that you spend good money on marketing for both, but with a good strategy.

This way, you will certainly have more deals and more buyers. These are just some of the simple techniques that you can use in wholesaling houses. These techniques will help you gain from every venture opportunity that comes along. If things go right, you may even find yourself in a situation, where you have more qualified buyers and more deals than you can manage. In that case, you can also wholesale them to other investor.

On the contrary, in case, you have no quality deals but do have qualified buyers, you still have an option, as you can network with other investors who have deals, and can earn good money by bringing qualified buyers to them. Successful real estate investor can leverage the best use of his/her time by implementing systems that can run on autopilot with minimal maintenance - and, wholesaling houses provide such an effective system.

II.B. The Procedure of Wholesaling Houses

The best thing is that there are no risks involved when you invest in wholesaling houses. Moreover, you can go ahead with the same with little or no-money down. The simple reason is that when it comes to investing in the wholesaling real estate, you do not require taking the ownership of that property. You just have to take the property under contract, and then assign this contract to another buyer who will close on the property in your place. Now that is the reason why wholesaling houses is considered such a wonderful option in real estate to make big bucks. Can you just imagine you can make big bucks from the property you do not own? Let me explain how it works.

II.B.(i). Getting The Right property

Getting the right property for wholesaling houses is very important and primarily depends on the effectiveness of your advertising strategies. If you are looking for a positive cash flow, all your advertising strategies must work with an objective to get you a property that has sufficient

equity. This is where your negotiation skills can do the magic. So, use it and try to get the property at as minimum a price as possible. Once you finalize the price with the homeowner or buyer, it is the time to prepare a sales contract between you (the buyer) and the homeowner (the seller). It is always prudent to use the contracts from the Board of Realtors because they are quite easy to use and people are quite familiar with them.

However, you must also keep in mind that in many areas, the Board of realtors does not sell contracts to the public. Therefore, do not forget to check with your local Board of realtors first whether they sell contracts to the public or not. If they do not sell the same, the alternative place to get a real estate contract is from major office supply stores.

Be very careful while you are filling out the contract. Make sure that you put your name properly in the buyers name with the words "and/or assign" after that. This is important because this is something that enables you to assign the contract to the rehabber. Now, sometimes you may find yourself unable to wholesale the property. Therefore, as a precautionary step, in order to make the contract binding, you should leave a minor deposit (say \$15) with the homeowner at the time of signing. This way even if you are unable to wholesale the property, you will not be out a lot of money. Many investors hesitate offering a deposit of as low as \$15 because they fear the buyer will not accept such a little amount.

Well, let me clarify, in wholesaling houses, surprisingly every homeowner willingly takes this deposit. However, you must be good at communicating the things, such as you may say to them, "\$15 is what we pay as deposit, and we close in 30 days". You will have to communicate the things effectively. This is the only way you can convince have them take that little deposit.

II.B.(ii). Creating The Buyer's List

In wholesaling houses, the buyer's list is the list that consists of the details of the rehabbers who buy wholesale properties. Needless to say, having a potential buyers' list is very important in wholesaling houses. In order to prepare a potential list, you can start with running an ad in the paper. Make sure that the ad conveys a typical message that is to the point.

For example, you may use phrases like "great deal for rehabbers". Once you have run such an ad, you will start receiving calls from investors. You must keep record of each call, and note down the contact information in a database, including their name, number, fax, and email. Keep the ads running at least for 60 to 90 days. Even if you happen to sell the property in the first week, it is prudent to keep that ad running. This will eventually help you build a buyer's list. Therefore, the next time when you find another wholesale deal, you will have a list of the buyers ready with you.

Now, if a buyer contacts you after the property has been sold, simply inform them that the property has been sold, but you are working on another deal and as soon as you finalize the deal, you will get back to them. The more extensive is your buyer list, the faster you will be able to find a buyer for your wholesale property, and the faster you will get paid.

II.B.(iii). Negotiating the Deal

Negotiating the deal with the rehabber is very important in both the cases whether you buy the property from the homeowner under a contract or you sell the property to the rehabbers. Obviously, in the first case when you are buying the property from the homeowner, you have to use your negotiation skills to finalize the deal at as low a price as possible. In the second case when you are selling the property to the rehabbers, you have to use your negotiation skills to finalize the deal at

as high a price as possible. You need to be at your best in negotiating the deal at both the places. After all, this is going to affect your overall profit substantially.

II.B.(iv). Moving Towards Closing

Once a final price is agreed, it is the time to move towards a closing. This is where you must use your investor-friendly title company. The reason is that they are the one who take on all your worries and do all the works for you. Your task is just limited to getting a good deal, wholesaling the same to your rehabber, and moving towards the closing. Once you are through with these tasks, your investor-friendly title company will take the charge and will do the rest of the job.

If there were only one all-encompassing manual on how to become a truly successful real estate investor, then after the table of contents you would find the first chapter on cash flow. Cash flow literally is the key to the kingdom in successful real estate investing. Now that I have steered you into a mentality thinking of finding those great deals, I hope you will be using the wholesaling houses to get you there, cutting as much of the learning curve off as possible.

Wholesaling will get you as an investor quicker there than any other means in real estate. In the world of wholesaling, you can profit from every venture opportunity that comes along. If you are out of qualified buyers and have quality deals, you can simply wholesale them to other investors. Conversely, if you have qualified buyers, it is always great to be networked with other investors having deals and you will get paid for bringing qualified buyers their way. Good hunting as luck has absolutely nothing to do with it.



Chapter III

Maximizing Cash Flow By Investing In Rental Property

When it comes to investing in rental property, cash flow plays a very important role to decide if your investment is good enough to build wealth for you. Before you make your investment in rental property, it is always prudent to calculate the expected cash flow much before spending your hard-earned money. When you are buying investment property, it must make economic sense. If you find that there is a negative cash flow, it will certainly not be a good idea to spend money in such rental property because then you will have to pay additional money to cover operating cost and debt payments. What is more, you will have to do all this for no return. On the other hand, if there is a positive cash flow, there will be an increase in the value of the property with the payment of your mortgage loan. Therefore, make sure that you have a positive cash flow from the very beginning. This will certainly increase your ultimate return and you will enjoy a greater profit.

Naturally, you must avoid paying too much and taking on too much mortgage debt. Residential renters are a much easier bunch to attract than commercial tenants. In addition, everyone needs a shelter. Houses are a necessity of life. The danger of anyone taking your investment houses, with any equity, is almost zero. If you buy them, right and structure the financing so your tenants can pay them off, you will be very well rewarded with substantial positive cash flow for your initiative. Overall, when it comes to investing in real estate industry, investment in rental property is no doubt a solid investment. Investing in rental properties is a great way to achieve stability, preservation of principal and capital appreciation. It can also help you achieve a significant cash flow for many successive years.

There are several good economic reasons why I recommend keeping a flock of rental houses but the reason dearest to me is that they can furnish you with a pocket full of cash every month - come rain or shine.

Over the years, as the mortgages are retired and paid off, you will have extra cash on hand to buy discounted mortgages, including buying back your own debt. It can be a very lucrative companion business to your real estate investing.

III.A. Ways To Get Positive Cash Flow From A Rental Property

When it comes to generating and maintaining positive cash flow through investing in rental properties, there is just one precise formula - the loan-to-value ratio multiplied by the annual loan constant must be lower than the capitalization rate.

III.A.(I). What Is Loan-To-Value Ratio?

Loan-to-value ratio is the ratio of the total mortgages on the property and the value of the property.

In other words,

Loan-to-value ratio = (total mortgages on the property) / (the value of the property)

Just after purchasing the first investment property, a typical homeowner can easily have 80 to 90% loan-to-value ratio.

III.A.(ii). What is annual loan constant?

The annual loan constant can be formulated as follows:

Annual Loan Constant = sum of the annual mortgage payments including principal and interest) / mortgage balance

Thus, it is obvious that the shorter is the remaining term, the higher will be the annual loan constant.

III.A.(iii). What is Capitalization Rate?

The Capitalization rate of a rental property can be formulated as follows:

$$\text{Capitalization Rate} = (\text{annual net operating income}) / (\text{the price of the rental property})$$

Another way to define cap rate is that it is the cash-on-cash return you get when you have no mortgage on the property.

Positive Cash flow: Various Scenario

Overall, there are roughly two scenarios that can get you positive cash flow from a rental property.

- When the loan-to-value ratio is normal (i.e. 70-80%) and the capitalization rate exceeds the annual loan constant
- When the loan-to-value ratio is abnormally low (i.e. 60% or even lower than that)

Irrespective of your capitalization rate, positive cash flow can easily be acquired by having an abnormally low loan-to-value ratio.

III.B. Calculating The Net Cash Flow

You hear something like this all the time: "The mortgage is \$800, and the rent is \$900, so my cash flow is \$100 per month." You even see real estate books and course that fall prey to this kind of fast and sloppy accounting. Well, I must say if you are calculating the cash flow that way, you will never get the clear picture. It is important for you to understand that cash flow is what you have or hope to have after all your regular expenses, which include taxes, insurance, maintenance, repairs, water bills, utility bills between tenants, garbage collection, advertising costs, and anything else that it costs to have that home.

You can use your very own tax return from last year to see how much your cash flow really was.

$$\text{NCF} = \text{R-Rec} - \text{R-Exp} - \text{T-pay} - \text{T-cost}$$

Where,

NCF = Net cash Flow

R-Rec = Rent received (you can find this information from Schedule E)

R-Exp = Rental Expenses (you can find this information from Schedule E)

T-pay = Total principal and interest mortgage payments (You can calculate this by multiplying monthly payment with 12 - the total number of months in a year)

T-cost = Total basis (cost) of all improvements and replacements added that year (You can find this information from the form 4562 of your tax return.

III.C. Some Strategies To Ensure Positive Cash Flow

Following are some of the tried and tested strategies that can effectively help you earn positive cash flow perpetually.

Buy In The Rare Market Where High Cap Rates Are The Norm

You should consider positive cash flow from the tenant's perspective. One of the best ways to acquire positive cash flow through rental properties is to buy in the rare market where high cap rates are the norm. The best thing with such a market is that they are usually severely depressed like Anchorage or Oklahoma City in the late 80's. What I mean is that in these markets, you can easily find a tenant who is ready to pay more to rent than they would have to pay to own. The reason is their misconception that the property values are falling or level and so not owning the property is a good idea in spite of the high rent.

Make A Bargain Purchase

Another great way to acquire substantial positive cash flow is to make a bargain purchase - just as you do at a foreclosure auction or out of probate. The advantage of doing so is that even though your loan-to-

purchase-price ratio may not be low, you will have a low loan-to-value ratio.

Caution: Achieving substantial positive cash flow by making a bargain purchase is no doubt a great idea, but it is always prudent to sell out the property soon because your extraordinary amount of equity will result in your return on equity being low.

III.D. Maximizing Cash Flow By Not Repairing Things Or Making Necessary Safety Improvements

Many people try to maximize their cash flow by not repairing things or making necessary safety improvements. They do not understand that this is just a short-term way to increase cash flow with long-term consequences. Trying to maximize cash flow this way is often referred to as slum lording. In the long term, it results in not just lower rental income for you, but tenants that are more problematic. Do the calculations and you will see the logic of having a nice place. New carpet and repairing a dangerous porch might cost \$3,000, but if you roll it into a refinancing (let us say a 7% 30-year loan) it adds just \$20 per month to your expenses. Even on a credit card, it might cost you only \$60 per month. You might be able to get that much more in rent for a nicer place, and you will have fewer problems.

III.E. Making Money From Rental Homes Vs. Making Money Speculating On Price Appreciation

As long as you have positive cash flow, rental homes are a great long-term way to make money in real estate. It is an inflation adjusted retirement plan, since rent - and so your income - goes up with inflation. Many people confuse making money from rental homes with making money speculating on price appreciation. You can certainly get do both with rental homes. There are four possible financial benefits to investing in real estate: Positive cash flow, Appreciation, Tax savings, and Amortization of the mortgage. Many investors today expect to get most of their return from appreciation. Consequently, they are willing

to accept little or no cash flow or more commonly, negative cash flow. Is that the right notion? Certainly, NO. It is not very prudent to accept negative cash flow with this assumption that the appreciation of the property will pay you more back.

Suppose you bought a home for \$80,000 and thirty years later it drops in value to \$60,000, but meanwhile you paid off the loan and had cash flow the whole time, you are doing great. You have \$60,000 cash whenever you want to sell, and better cash flow now that the loan payments are done. That is much more secure than gambling on appreciation while losing money - but you still get any appreciation gains anyhow.

Even if you are ready to accept negative cash flow with this assumption that the appreciation of the property will pay you more back, you must understand that there is a limit to the number of negative-cash-flow homes you can own. At a loss of \$4,000 per year, how many can you afford? On the other hand, if your rental homes are paying for themselves and even throwing off some real cash flow, you can own any number of them. The more the better.

Always remember, the only way to get positive cash flow from rental property is to buy on a bargain basis or to increase the value of the property significantly. You can definitely do this, but do not think it is easy. You will have to work hard, following the right strategies and only then, you can achieve a positive cash flow. Always remember that you cannot build positive cash flow passively. You will have to make your efforts actively. What is more, just focusing on positive cash flow is also not a good idea. When you are investing in real estate, you must remember that there are ample ways to make wealth and building positive cash flow is just one thing.



Chapter IV

Low-end houses - Your Ideal Cash Flow Vehicle

One of the primary objectives of investing in property and land is to create and maintain a long-term, on-going cash flow. Some of the excellent positive cash flow producing assets include mobile home lots, apartments, garage/storage units, and houses. In particular, low-end houses make an ideal asset that can help you create long-term profit streams.

IV.A. What Exactly Does Low-End Houses Mean?

Low-end houses do not mean bombed-out slums. What I mean by low-end houses is the basic, starter homes that are located in good areas. However, great locations are not a necessary element. These marginal areas typically are more of a buyer's market, thereby, tilting the negotiation in favor of a hard-cash buyer or a buyer, seeking owner financing. Actually, owner financing is easier, much easier in these slightly marginal areas.

IV.B. What Makes Low-End Houses Such An Excellent Cash Flow Vehicle?

There are multitudes of factors that make low-end houses an excellent vehicle for creating long-term substantial positive cash flow. Let's go exploring.

- The first and probably the most important reasons is that low-end houses are abundant. Every city, town, and neighborhood not only in UK and US but also all over the world has houses.
- Low-end houses are most common of the real estate properties and there are lesser intricacies involved in dealing with the same. Therefore, it is much easier to purchase them.

- It is very easy to find sellers who own them in some sort of crisis ownership position, such as Vacancy, disrepairs, judgments/liens, back taxes, etc. This makes the low-end houses probably the easiest to buy at a discount.
- Unlike storage or garage unit rentals that are occupied with stuff and not people, it is much easier to manage the low-end houses.
- What is more, if you keep the low-end houses well maintained, they will often keep tenants for a three to five year cycle - sometimes even longer. Most of the other properties have shorter-term occupancy in comparison to the low-end houses.

Even if you live in one of those few areas where house prices are just inflated far too high to make the numbers work, there is nothing much to worry because you can use the same concepts and techniques with small apartment buildings, mobile homes or lot rentals, rooming houses, and almost any other lower-scale income properties. When I say low-end houses are one of the best positive cash flow vehicles, I do not mean you to be stuck on houses only. Do not limit yourself. You should always open to buying great deals on anything people will rent. Low-end houses can be a gold mine. Even the management is not as tough as many people think. Investing in low-end houses is all about buying and managing perpetual income streams.

IV.C. What To Do When Prices Of Homes Have Been Rising Faster Than Rents

Now, when for years the prices of homes have been rising faster than rents, some people do find it tough to generate and maintain positive cash flow. That is the reason why many investors have fallen into the common practice of buying properties that lose money every month. They do this on the assumption that they can make their profit when they sell the properties in a couple years. If you are also one of those indulged in this common practice, I am afraid you are likely to be in trouble soon because home prices in many areas have stopped rising or even started falling. Always remember that there is a limit to own

properties with negative cash flow. On the other hand, with positive cash flow, you can own as many as you want. Following are some of the alternative ways that will earn you substantial positive cash flow. In fact, they are the ways to reduce expenses or increase income, or both. If you are able to do so, you will eventually end up with positive cash flow.

Keeping the Payments Low

If you are unable to get a lower interest rate from the bank, you should try to get seller financing. Furthermore, try to amortize the loan over 30 years, not less than that.

Keeping The Operating Costs Low

If you look closely, you will find numerous unnecessary operating costs. Cut it down. It may include doing the following.

- Getting a cheaper management company,
- Finding cheaper insurance, and
- Getting the property taxes lowered if the property is over-assessed

Increase Rent - If Feasible

Analyze the area rents and see if it is feasible to increase the rent for your tenants. Even if making some improvements allows you to raise the rent, it is worth doing that. However, make sure that after making the improvements, you are able to raise the rent more than enough to cover the cost of financing those improvements.

Lease A Home And Give The Renters An Option To Buy It

When you lease a home and give the renters an option to buy it, you will often collect higher-than-market rent.

Apart from the ways as discussed above, one way to get that positive cash flow is to invest in mobile homes on land. These often rent for close to what small homes get, but cost less than half as much.



Chapter V

US Tax Code - The Incentives

When it comes to generating and maintaining positive cash flow, the US Tax Code provides several strong incentives that make it exceptionally profitable for real estate investors. Let me give you a brief insight into that.

V.A. Section 1031 - Tax-Deferred Exchange

Perhaps the most recognized incentive provided by the US tax code is the Section 1031 tax-deferred exchange. This is the bailiwick of perhaps the most educated and creative people in real estate - Professional Exchangers. Section 1031 of the Internal Revenue Code generally provides that neither gain nor loss be recognized if qualifying property is exchanged for other qualifying property of a like kind.

VB Section 453 - Installment Sales

The Section 453 enables you to avoid the bulk of capital gain taxes ordinarily due on the sale their investment property. Using the seller-carry back installment payment technique, sellers can avoid what we call "tax friction" and defer these taxes, paying them in very small increments over a long period of time. As a result, sellers are able to reinvest their profits for even more profits.

V.C. Section 163

The tax code Section 163 allows you to write off interest on debt used to finance investment asset. Financing a high percentage of the purchase price generates a large interest deduction in the early years of ownership. This deduction provides a tax shelter that can shield positive cash flow, as well as the equity buildup occurring through principal reduction on the loan, from taxation.

Chapter VI

Build Positive Cash Flow In A Tough Market - Find Motivated Sellers

Getting deals that promise you a positive cash flow is not an easy cake. It is not as if you will browse through a dozen deal and will end up finding the one that can effectively earn you substantial positive cash flow based on collecting a reasonable rent and getting 30 year fixed rate financing. This is one of the most common problems for real estate investors. This is what I believe to be one of the things that discourage many people from starting a lucrative real estate investing business.

Finding the right deal is just like extracting the gold from coalmine. You have to look at many deals to find that special one that will work. Sometimes, you might even have to look at hundred properties in order to make better distinctions about what might work and what will not work. After all, not everybody is lucky enough to live in or near a city that has a low-income area where you can still buy rental properties where the values are about 100 times the monthly rent.

V.A. Finding Motivated Sellers

Putting out marketing to find motivated sellers makes finding these types of houses easier rather than just looking at houses that are for sale by owner or listed with a real estate agent. In fact, one basic principle to ensure success in getting the positive cash flow deals is to focus on motivated sellers. Talking to unmotivated and inflexible sellers is equivalent to beating your head against the wall. Even if you know thousand ways to creatively buy real estate property from an unmotivated seller, your chances to make money and a positive cash flow will be minimal. On the other hand, motivated sellers can help you make better deals. You can put more cash into your pocket, as it increases the profit potentiality of the deal. In addition, most

importantly, you can save your valuable time, which you can utilize for some other ventures.

V.B. Is Finding Motivated Sellers Sheer Luck?

Many real estate investors have this assumption that finding motivated sellers is sheer luck, and no hard work or planning can motivate the seller. Well, assuming the same is sheer misconception because finding motivated sellers are no luck at all rather it is the outcome of your hard work. It depends entirely upon certain principles and marketing strategies. In fact, marketing is the lifeblood for your real estate career, and it plays a critical role in finding motivated sellers. With the right strategy to pinpoint investment opportunities, a prudent real estate investor can realize sizeable profits and cash flow, irrespective of how overheated is the market.

V.C. How to Determine the Prospect's Motivation

You need to work hard in order to find motivated sellers. Always remember that good real estate deals are those, which are not entirely based on the selling price of the property, but of the emotions attached to the owners. Make sure that you do the following homework.

The Questionnaire

The big question is how you can judge if the seller is motivated or not. Well, the best and most prudent way is to prepare a questionnaire and judge the motivation of the seller based on their answers. Talk with the seller on the phone, and if you find him motivated, only then go ahead and make a visit at their place. Following answers show that the sellers are truly motivated ones.

- If they say something like they are being transferred and just bought this house last year, and they are in a state of fix what to do because it is very difficult for them to afford two payments.

- They may also say that they do not have enough money to fix the property and they would just like to sell it quickly and be done with it.
- Sometimes, the seller asks for your suggestion. Such sellers are supposed to be extremely motivated. For example, they may say something like they are not in a position to manage the house because they live out of state and their tenants take advantage of them all the time, so what should they do.
- Sometimes, they are terrified of certain things and want to sell the property as quickly as possible. In fact, they do not want to sell it, but they just want to get rid of the same. For example, a seller may tell you they are being warned that there are code violations on the property and they fear that they will be bulldozed if they do not get up to standard. Such sellers are in fact looking for 'motivated' investors like you.
- A failing business, too much debt, or other financial problems often force a sale. Therefore, try to find out if the owner is behind on payments.
- Talk to them and try to find out if the seller is not happy being a landlord and wants to get out at any reasonable price.
- Last, but not the least, try and find out if the owners have in their mind to move into a larger or a smaller home. In such cases, they may need to close the sale quickly.

Research And Analysis

While you do your research and analysis, look out for the following.

- **Notice of Default**
This is an available publicity, where the bank sends out a notice to the borrowers notifying them that they are delinquent on their mortgage payments. This can be an indication, good enough to find the borrower motivated to sell their property as quickly as possible. All you have to do is to contact them and convince them terrifying further by using your communication skills.

- **Notice of Divorce**
Divorce or relationship problems create many motivated sellers. Research says, in most of these cases, the property is likely to be sold, and that too, as quickly as possible. It is often because a house payment is needed from both parties.
- **Notice to Condemn**
This is a notice that notifies the homeowner that their property does not meet zoning or building code requirement for that county. Such a notice upsets the homeowner and you may contact them and find out that they want to get rid of the property as soon as possible. Cash in the opportunity.
- **Delinquent Property Taxes**
These are the taxes that the state tries to recoup one way or another. Contact such a prospect and try to be a helping hand.
- **For Sale by Owner**
You may also get valuable information about the properties that are on sale by the owner under the tag 'for sale by owner.' Hurry up because such prospects are the prime candidates for a Subject to type deal.
- **Pending Probate Court Cases**
If the house is in probate and the heirs are all waiting to get their inheritance, you may find them more interested in a quick sale than getting a great price. If you find some pending court cases where the beneficiaries live out of state, they might be what you are hunting for. Such out of state beneficiaries are likely to be more eager to sell for a fair range because they do not generally have an interest in managing the property remotely.

More Clues that Indicate a Motivated Seller

There are many other clues as well that indicate for a motivated seller. It is worth trying the following.

- **The Classifieds**

When you browse through the classifieds, pay attention to the wordings of the ads, such as, "Need to sell", "Must Sell", "Will look at all offers" etc. These are the potential indicators of a motivated seller. Let me give you a specific example. Suppose you find a rental ad that has the word phrase "Must have a good job". This may indicate that the landlord is very much tired of their tenants and may be ready to sell the property. Hurry up. Contact the prospect immediately.

- **Are the Properties Neglected?**

If you find that the properties are neglected, it may indicate that the owner is either short on cash or tired of the property or out of town. Whatever be the case, all these are potential indicators. As an owner with an address far away, County records are open to the public in most places. Therefore, utilize this resource. Go there and look out for the properties that list an owner with an address far away. Such owners also make good motivated sellers.

Approaching the Prospect

In all such cases that indicate that the seller is motivated, the prudent way is to approach them as a consultant, trying to solve the problem they are facing. Make sure that in doing so your empathy and listening skills are highly important and are on test. By demonstrating your sincerity, you will eventually be able to reap great benefits from the transaction. For example, you may finalize the deal at a much low price. You may be able to close the deal in the form of Subject To deals. You may offer flexible price. Alternatively, you may be able to finalize the deal with low to no down payment required. Make sure that you are first few of the investors to approach the seller. Moreover, after you find such deals, you should close in on it as quickly as possible. However, do not forget to hire a handyman first to evaluate the property in order to see if and how much repairs are required on the

property and what will be the overall cost. Overall, the bottom line is to use your eyes and ears and look for the clues.

V.D. Time is the Best Resource for You

If you want to ensure a successful real estate career, you must understand that the most important resource you have is time. No doubt, there are other resources also that add merit to your ability to become successful, such as you having a credit line, or knowing everything about lease options etc. At the end of the day, your time management skills unlock your ability to discuss deals with various types of sellers. No matter you have that corporate job and buy/sell real estate on the side or you actually are a bona fide professional investor - in either case if you do not have an effective, consistent, and repetitive strategy implemented to locate motivated sellers, very soon you will come to realize that you have wasted your time into chasing dead-end deals. Therefore, be prudent and play smart. True, in real estate industry, it is always hunting season for the investors, but be wary of what exactly are you hunting and where. The answer to this must be motivated sellers. Happy Hunting!



Finally

Nothing comes ahead of cash flow. If you have it, you can continue to grow. You can transition from smaller properties to larger ones or fixers to pride-of-ownership. You can use your cash flow to buy mortgages for passive income or take a trip around the world every month when the rents come in. Cash gives you choices.

Always remember that regardless of where you live, it is always desirable to have your investment properties pay for themselves, and can move you a long way toward your goal of financial success as a real estate investor. Again, if you cannot get the little things done, you will never get the big things done. What I mean you must be ready to work hard if you want to build and maintain substantial positive cash flow.

At the same time, it is always prudent to set a time limit on your goal to reach your new cash flow objectives. If you use just a few of the ideas I have shared with you through this ebook, you will certainly achieve your new cash-flow goals.