

Avoiding Common Mistakes in Real Estate Investing

Make Money the Easy Way... By Avoiding Costly Pitfalls!

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There have been days in my real estate career that I have made more money in a single day than most people make annually.

Those are the big paycheck days that most investors brag about to sell books and information.

What they don't tell you is that there are ways you can lose that much in a single day too.

If real estate investment was simple and easy there would be no 401 K managed by stock experts, no savings bonds, no mutual funds. Everyone would be buying and selling homes.

While I believe that real estate is the best investment going, it's also the only investment that you have to interact with on a personal level. Although worrying about your stock portfolio may indeed keep you up at night, especially in this economy, when was the last time one of the companies you owned stock in called you in the middle of the night because the furnace in their office quit running? Or the last time the CEO of one of the companies you invest in got arrested and the cops called you to let you know? Yet when a furnace goes out in your rental property or your tenant sells drugs on the front porch of your home, it's up to you to make it right.

Real estate is not a hands-off investment. It's not static. Every time I think I have seen or heard it all regarding investing in real estate something new comes along.

My education as a real estate investor who has bought and sold more than a hundred homes is still ongoing. I still attend seminars and forums and read information on this topic on a daily basis. I can tell you how to buy houses using other people's money, how to take over payments, get deeds from sellers, buy on short sale, buy foreclosures, buy at an auction, buy using "hard" money, rehab everything from cosmetic problems to complete gut jobs, etc.

The focus of this book, however, is to prevent you from making the mistakes I made as a newbie investor long ago. You know the saying "If I only knew then what I know now?" I've compiled a list of what I wish I knew in the beginning to share with you.

This is not fiction, even though I wish some of it were ☺.

CHAPTER ONE: ALL BANK OWNED HOMES ARE NOT GOOD DEALS

There are hundreds of homes every month that go on the market as bank owned foreclosuresⁱ and short salesⁱⁱ in the market area where I live, and the same is likely true in whatever market you are in. As the real estate market continues to bottom out, these types of sales will become more and more prevalent.

In my hometown alone, eighty percent of the real estate sales are bank ownedⁱⁱⁱ or short sale homes.

If every one of these homes was a great deal waiting for a fortune to be made on them, investors all over the country would be flying in to get a piece of the action! However, they are not.

Here's how to determine what's a good deal- determine your goal and then determine the highest and best use of the home.

Some homes are best used as rental property, some are best rehabbed and resold, and some are best torn to the ground and forgotten about. Do not buy one of those!

Some homes are not good deals not because something is wrong with the home itself. Some homes are bad deals simply because of the headaches the former occupants or current neighbors cause.

A personal example...

I purchased a home at sheriff sale. It was a great buy- very cheap because it was a tax sale^{iv} in a decent neighborhood. The outside looked fine. In this area sheriff sales^v are bought sight unseen. You drive by, take your best guess at what's inside, and make your bid at the courthouse.

I was pumped after I won the house and couldn't wait to check it out. As I went through the front door I got even more excited. There were two baths when I had only expected one, a decent family room addition, and a good sized kitchen. Wow, what a payday!

Then I saw the basement door. Written with a marker in a young child's handwriting were the words "Warning, toxic area, do not enter." Under the written message, crudely scribbled, was a picture of skull and crossbones that reminded me of the picture on the bottle of head lice medicine all of us public school kids had dreaded as children. In other words poison was inside.

Yes, this bad purchase was clearly the fault of a kid named Tammy. Tammy gave me head lice as a kid. The toxic "skull and crossbones" medication used to cure it had seeped into my scalp and caused me brain damage. That was why I was now stuck with this house with a basement full of heaven knew what.

I opened the door and a terrible stench came rolling out. By the time I reached the bottom of the steps, I was knee deep in human crap. The sewer line had backed up into the basement and the previous occupants, lacking either the money or the common sense to have it fixed, had continued to poop in the bathroom and just let it fill up their basement.

We found out the sewer line wasn't working because someone had shoved a beer can down the sewer line and it had lodged itself right smack dab in the middle of the yard halfway down the line. Not only were we faced with removing the doo doo from the basement, we had to dig up the yard to fix the problem.

My great buy quickly added up to a big mess, literally and figuratively.

CHAPTER TWO: SOME HOMES ARE GOOD DEALS AS RENTALS ONLY

If your goal is to become a landlord^{vi}, focusing on your monthly cash flow and tax benefits of rental ownership, your choices are going to be much more open than someone who only wants to rehab and resell homes. There are many, many more homes on the market that a tenant^{vii} will be interested in renting rather than homes an end user will want to buy.

To identify a rental home as opposed to a potential resale home, ask yourself this question:

Are the majority of the homes in the area tenant occupied or owner occupied?

If they are mostly tenant occupied, then you know the home is more than likely a potential rental only. Resale homes are easiest to sell in areas where other people own their homes. Yes, it's possible you will sell a home in a predominantly rental area to an owner occupant and make money. It's also very possible you may be over improving this home just to end up using it as a fancy rental. Tenants do not expect the same newness that buyers do, and in some areas your rent will not be higher just because your home is nicer than others. Remember that many times rental homes get damaged by tenants so expensive rehabs may cut into your profit potential. Rental homes should be made attractive and livable, but they don't

necessarily need to be equipped with stainless steel appliances and new bathrooms. Take a look at the areas surrounding your rental home and ask what standard is expected and try to adhere to that.

Some landlords tell me that they have found that improving their properties more than others in the area have brought them good tenants that other landlords can't attract.

Ask other landlords in the area that you know what they have found to be true. There are some areas in my market that attract the kinds of tenants landlords dread. If you know an area is a high crime area with lots of boarded up homes, and you know that you are not the kind of tough character it takes to collect rent and do evictions in such an area, you are probably better off avoiding this area.

The number one mistake I see new landlords making is buying the cheapest house they can find assuming that the less they pay the more they will make every month. This is not necessarily true. Those empty, boarded up, repossessed homes once belonged to another landlord who gave up and likely had their credit ruined in the process. If there are a large number of boarded, foreclosed rentals then that means a lot of landlords gave up. See where I am going with this?

The best rentals I have owned are in the “bread and butter neighborhoods”- the areas where people live when they are starting out on the right path.

We all remember our first apartment or rental home and most of us have some funny stories to tell. One of my first apartments had only a wood stove for heat. If you have ever lived through a snow filled winter you understand why my goal quickly became to find a better place to live FAST! If your rental is located in an area where people live because they have no other choice, you are likely not going to keep your tenants long. Worse yet, you may attract the kind of tenants you **wish** would leave.



An example of a home before the bank

cleaned out the debris left behind by the former resident. This is often the kind of mess left behind when people exit a home against their will (eviction).

Every market area has its own specific attributes that are region specific, but the general questions that need to be asked to determine a good rental are ...

#1...Would you have wanted to live in this home and area before you owned your first home?

#2...Are the tenants in the area on their way up in the world or is this the kind of area people live when they have given up? You may laugh when reading that, but it's important. I have had many tenants who were trying to make a better life for themselves and others who just didn't care. The ones who didn't care were usually the hardest to collect rent from, the most likely to move in ten of their closest friends and relatives, the most likely to get into trouble with the law, etc. They caused me headaches I didn't want and that you don't want either. They also tend to want to live around other people who agree with their life philosophy, and these people tend to live in the areas where the landlords give up too. You don't want to be in those areas. Even if those homes are cheap they are NOT a deal.

Questions to Ask When Evaluating a Home...

1. Is the home close to the things people want- shopping, schools, jobs, public transportation? On the flip side, is the home close to things good people don't want- crime, abandoned homes, brown fields, polluted areas, etc? In my area some people want to NOT be close to things- they want to live in the country. If you live in an area where people consider living in the country desirable you may want to consider those areas too.

2. Does the home have the ideal number of bedrooms for the area? In my area there are many two bedroom homes. Tenants are always searching for homes with three or four bedrooms so that they can have more room for their kids. If you have to pay a little more to get the home with the ideal number of bedrooms for your area, in the long run it may be worth it.
3. Does the home have storage? Your rental home that has a garage or basement will bring more people to look than those where the living area of the home will be cramped.

Keep in mind rental homes are generally in markets that are appreciating at a slower rate than homes in resale areas. Therefore your monthly cash flow^{viii} is king. Because reselling the home is not where you will make your money, it is very important to be sure you are in an area where you will make money by the month.

How did I lose money in rentals?

By buying houses in “war zones” as I heard one investment coach refer to them- the area that was hard to collect rent in, and couldn’t find a property

manager who was interested either. “War zones” are where investors are at war with a declining market and still trying to make money but end up losing.

CHAPTER THREE: RENT TO OWN DOESN'T ALWAYS MEAN SOLD

If you would like to sell homes on land contract^{ix} or lease option^x you need to be more selective in your tenant screening process than you would with just simply a rental home. The most common mistake I see people making in this regard is assuming that a lease option home has to be one they would live in

personally. I have a friend who has learned from the lease option sales experience that many times even though a person has put a sizeable option fee^{xi} or down payment on a home, they are often not able to or interested in buying it at the end of the lease experience.

Think of it this way- we have all purchased a car on payments and been excited as we drove our shiny new vehicle off the lot, not thinking about the impact the \$500 monthly payment or the maintenance of the car will have on our lives three years down the road. We're excited because we're in something new, something the neighbors will want to come over and take a look at. But after a couple years when the kids have spilled Kool Aid on the seats and a costly repair or two has had to be completed, we start to see the car as sort of a burden and we're ready to trade it in for something new to start the experience over again.

Yes, maybe we have to eat some of the money we spent on the car to get the next one, but hey, it's new and exciting and it's the change we've been looking for.

And so it goes for lease option houses. The tenant buyer sees your new carpet, fashionable new light fixtures and perfectly manicured lawn. They are excited, they give you their down payment, and they move in.

After a year goes by and the dog messes on the carpet, the kids whine about keeping up with the landscaping, and the dishwasher goes out they slowly lose interest in owning that home. They haven't lost touch with the idea of home ownership, just ownership of THAT home.

So, you've given your tenant buyer time to clean up their credit, save up their money, and in essence you've freed them to purchase someone else's rehab and resale home. So you start again remodeling the house so that the "new home smell" is present again and the process starts over with a new tenant buyer.

If you've gotten a decent amount of money down you will be able to fix the problems caused by the exiting tenant. This is why you SAVE that money, so that if they decide to move out you have a cushion to fall back on. Too many investors spend that money the minute they get it, left in a crunch if the deal doesn't go down with a purchase.

Also, do not assume that just because your tenant buyer makes more money typically than your run of the mill renter that they will pay on time, or take better care of your property either. Income does not always equal responsibility.

One of my most memorable moments has to do with a property I managed where the tenant was a nurse. She was an educated person with a decent income.

Her house was filthy, her kids were neglected, and I had to evict her to the point of setting out her belongings in the presence of a sheriff's deputy as is the custom around here. At the same time I was setting her furniture to the curb, the local rent-to-own furniture store repo man was there collecting it out of the yard. He was taking her furniture because she hadn't paid for that either.

Although her income more than covered all of her bills, and on paper she appeared to be the perfect tenant, she turned out to be a costly mistake for that landlord.

**Which brings me to the famous last words of every beginning landlord
“But I will be picky about who I rent to.”**

Never say this to a seasoned landlord because they will immediately write you off as a crazy person!

Before I had kids I used to look down on people whose children threw a tantrum in the grocery store, wondering how anyone could ever let such a thing happen and what kind of parent let their child get so out of control.

Before I had rentals I used to wonder how dumb landlords got stuck with bad tenants who tore up their properties and didn't pay their rent.

Today I eat crow on both.

Bad tenants happen to good people.

There are people who could con anyone. You will never completely protect yourself. You SHOULD run credit checks, call references and get money down. But none of that is a guarantee you will get your rent or get your property back in the shape you leased it in. Ask anyone who has ever been in the landlord business if they have any stories to tell and you are bound to get an earful.

Here's what my good tenants seem to have in common:

1. They stay in one place for a couple of years at a time. Beware of the renter who moves every six months- that's a sign they can't pay or they can't get along with their landlord.
2. They have been on the same job for a couple of years, even if it pays less than the other applicant who changes careers every six months.
3. They have enough money for their deposit and first month's rent. Many potential tenants have this around tax return time so this isn't a tried and true rule but I never rent to someone who wants to work out a payment plan with me for their deposit. If they can't save money at all that has always been a bad sign for me.
4. They have people they can fall back on- someone who they can borrow from to pay you in hard times. If a potential tenant tells you their mom, dad or

brother wouldn't help them out in hard times, it probably means they've borrowed money and not paid it back in the past.

There was a car dealership in my area that advertised on the radio that anyone would be approved for a car at their lot, even if "your own mama won't lend you money."

Don't be that landlord who does guaranteed rental property. When people tell you their problems ask yourself if they are the victim of circumstance (anyone can get laid off, sick, etc) or the victim of lifelong bad choices (in and out of rental properties through eviction, quitting a job every time they want to take a vacation, always blaming their family, friends and coworkers for issues that arise).

5. They have owned a home before or tried to.

With foreclosure through the roof many former homeowners appreciate a shot at owning again. They understand that homes require maintenance, they know how to do the basics of home repair and upkeep, and they understand that home ownership can be time consuming and monotonous once in a while.

Ever have a friend who has sold Pampered Chef, then Avon, then Tupperware etc? Every new opportunity is exciting at the sales pitch. Then

they get home and realize that working from home actually means **working** and they lose enthusiasm, then they move on to the next thing and the next.

Working on a home is the same way. Anyone who has owned a home in the past knows that fixing a broken furnace on the weekend isn't fun but it has to be done. Beware of the buyer who thinks homeownership is the same as being a renter with more personal freedom. It's not just that the paint colors don't have to be neutral anymore and you can have a pet without sneaking it behind the landlord's back, but believe it or not some believe that.

Even if someone has not owned a home in the past, if they have rented a single family home they are many times a more experienced candidate than those coming from the apartment lifestyle where the landlord paid the heat bill and mowed the yard.

Think back to the first home you ever bought and be honest with yourself, did you really think it would be that much work?

On an up note it's the kind of work many people find rewarding and important to their lives. Babies cry and keep us up at night yet the human race continues on. Not because it's easy, but because the positives of being a parent outweighs the challenges for most people. The same is true of homeownership.

CHAPTER FOUR: INSTANT EQUITY USUALLY ISN'T INSTANT

I see the ads for homes with “instant equity” all the time. The ad often lists the last price that the home sold for, making the deal sound even sweeter.

The last price a home sold for is nice to know because you can make a comparison of how values in the area have changed. However, the key to

determining the value of a home is what the houses in the area are selling for NOW.

Many times you can get almost instant equity in a home by making repairs and renovations that will bring it up to the standard for the area that will attract end user buyers. These are the perfect rehab and resell homes. Say you purchase the home for \$50,000, put \$20,000 in repairs and updates in the home, and sell it for \$100,000. You created \$30,000 in equity in the home for your efforts. Not quite instant, but pretty close!

True instant equity is created when you wholesale a home. For example, when you buy a home for \$30,000 and turn around and sell it to another investor for \$40,000 without touching the property- that's what the gurus mean when they say wholesaling. Basically you are getting paid for your ability to find a good deal.

Many people refer to buying a home and reselling it for a profit as "flipping" the home. I don't call the process flipping because "flipping" was used to describe some fraudulent activity that less than honest investors have gotten themselves into.

Flipping in the bad sense has occurred when an investor bought a house knowing there were many defects but ignored those defects and spruced the house

up just enough to get it sold at an inflated price. They sold the home without disclosing the problems they were aware of. They would pocket a bunch of money, usually with appraisers or loan officers in on the crooked deal, and then leave the unknowing new homeowner and the bank holding the bag after they were long gone.

You can sell a house that needs work; people do it every day, if you are honest and do not try to hide the problems. In Ohio we have property disclosure forms that are required when you sell a home where you disclose the defects and prior major repairs completed. If you are selling a home you need to make sure you are familiar with the laws of your state in regards to what your requirements for disclosure are and seek legal counsel. Time and time again I hear from people who sold their homes by owner without knowing what paperwork was involved or if they did how to fill it out.

Ignorance of the law does not get you out of trouble. I am not telling you this just because I am a real estate agent, but because it's true. If you speed on a highway because you didn't see the posted speed limit sign, does it protect you from getting a ticket?

Now, let's talk about the good parts of rehabbing a home and reselling it.

This is my favorite part of investing. I can drive through my area and point out many homes and say “I rehabbed that house.” I created a place that people can be proud to call home and I helped them learn how to become homeowners. That’s huge! For most would be investors, that’s the dream they are looking for- the big payday at the end of the project.

CHAPTER FIVE: REABBING AND RESELLING IS THE FASTEST WAY TO MAKE MONEY

Although each chapter of this eBook is worthy of an eBook unto itself, I am going to touch on the major points of rehabbing for profit here as this is what most investors are looking for and asking about.

These houses are the hardest to find, and the ones that every investor wants.

The formula- Normal home, nice area, needs work, selling for cheap enough you can do the work and still make a profit.

The ways people trip up...

1. Paying too much. New investors often underestimate or overestimate the costs of repairs. The best way to learn how much a repair costs is to hang out with contractors. If you don't know any contractors, volunteer to serve as a helper for a contractor someone else knows, but be sure to explain that you are not looking to take business from the contractor. Explain you plan to use them to rehab homes once you get started, and then once you get started be sure to make good on your pledge. Many contractors, especially those who are already successful, will be glad for an extra hand and not threatened by your request.

As a real estate agent, when I show houses that need work to people who are not in the rehab business, I often hear wild and crazy estimates of how much everything will cost to repair. True, if you call the contractor with the biggest ad in the phone book you will likely get a pricey estimate.

Your goal when rehabbing a house for profit is to get reasonable quality work for reasonable prices. An entry level priced home does NOT need a \$30,000 kitchen, although I know you could spend that on a kitchen if you wanted to. A modest two bedroom cottage does not need a \$15,000 deck that walks out from the 10 by 10 dining room.

People ask me how I learned what things cost. Trial, error and hard knocks. I can walk into a home in my market and analyze within five minutes in my head if it's a good deal. I base this analysis on the cost to cure the problems and what the homes are selling for vs. what I can buy the home for. Every investor gets to that point after they've been wrong a few times. To avoid those pitfalls you need to find mentors. The best places to find those are by joining investor clubs and forums and reading about other people's experiences and mistakes just as you are doing now.

Rehabbing for profit should not be where you live out your fantasies about what you think a home should be unless you are rehabbing someone's fantasy home.

You won't be rehabbing fantasy homes if you follow my advice anyway, because as we said earlier only "normal" homes that appeal to the masses are candidates for rehab.

I love contemporary homes built in the 1970's. I live in a contemporary style home and as I write this I am doing an open house on a contemporary 1970's built home. I love this home. I love my home. Probably 80 percent of buyers would look at both and say "hey this is neat" and then buy a colonial somewhere.

This is because the average person likes traditional two story colonials or ranches with basements. It's not hard to find a buyer for such a property.

The home that stands out in my mind the most and still makes me groan is an A-frame I once owned (see photo below).



It had great elements- four bedrooms, two baths, priced right, in the country (which in this market is good but may be bad in your market be sure to check), had a nice yard, had a nice deck, had a nice garage, had a basement. It met all the criteria for a good house to fix up and resell.

But as you can see from the photo it was odd. It would have made a great vacation home in the mountains or at a ski resort. It just didn't fit in with the other homes in the neighborhood. Tons of potential buyers looked at the house. They all

agreed it was nice. But they didn't want to live in it. They wanted to live in a more traditional home. Below is an example of a "normal" home I rehabbed.



Even though the "traditional" homes were selling for more and had fewer amenities than my super cool A-Frame, people kept passing me by. Agents got tired of showing "Maria's darn A-Frame" as it came to be known as in my office. My crew grew tired of going out there week after week to mow the grass. I was so disgusted I never even wanted to see another A-Frame.

In the end I lost money just to get rid of the house.

Another time I "got lucky" and bought a gorgeous high end home in a high end community for cheap. I worked on it night and day making everything new

and shiny. I have never been more proud of a rehab. This was a top to bottom beauty.

I put it on the market sure it would bring raving reviews.

Instead the feedback I got over and over was the home needed “TLC”!

What!

This home was a showplace! A beauty!

But that was the problem. That area did not appeal to the masses, but rather to people with money. Big money. This had to be updated at a higher level than the middle class homes I was used to working on. Although my rehab was tasteful and neutral, it didn't have the flare it needed to be successful in that area. So keep in mind if you are working in an area you are unfamiliar with you need to become familiar with the standards for the area.



The newly installed kitchen floor in my home that needed “TLC” that I thought was great 😊. It’s not about what YOU like, it’s about what the area demands.

CHAPTER SIX: SHORT SALES ARE NOT QUICK SALES

A short sale is where an agent or buyer negotiates with a seller's lender to get them to take less than what is owed on a house in order to have it be sold. The number one mistake I hear buyers make is referring to them as "quick sales."

Short sales are generally not quick. At times they can take months to negotiate as overworked asset managers don't have time to look at the file, lose the paperwork, etc. Asset managers are the people that work for the banks doing these negotiations on properties the banks hold mortgages on that are in default. In other words, they are the problem solvers the bank hires to try to figure out how to minimize their losses on the mortgages people aren't making payments on.

I started doing short sales at the beginning of my real estate agent career years ago because I learned how to complete them through my investor networking and training. At the time very few agents had heard of them, let alone tried one out. In today's market, however, short sales are becoming almost as common as normal

retail sales for agents, because so many homeowners owe the bank more than their home can sell for in today's market.

The problem is agents were never really trained on how to complete a short sale properly. They don't ask for the right paperwork from their sellers and they don't know how to determine if the seller is even a good candidate for such a sale. Many just know that the seller owes more than the agent can clear in today's market, so they figure they must need a short sale.

Although I have been told some lenders will allow such sales on a property that is not in default^{xii}, it is my experience that they usually want to see that the homeowner is about three months or more behind on their mortgage before they will agree to such a deal.

The paperwork most banks need from the homeowner in order to do a short sale is documentation of income such as bank statements, a hardship letter, the last two years tax returns and W2's or 1099's and also paycheck stubs. Once that paperwork along with an offer is sent to the lender, they generally order an appraisal or BPO^{xiii} (broker price opinion) on the property from a couple of different agents or appraisers to see what the home is worth.

I tell people to think of it as “unqualifying for a loan.” Basically, all the same paperwork needed to qualify for the loan is needed, but now the applicant (seller) is trying to prove they can no longer qualify to afford the property.

This entire process can take a long time to complete. Each situation is reviewed by an asset manager at the bank and they often have hundreds of files on their desk.

If you are interested in buying short sales be prepared to wait and be patient. Also, be prepared to have to make offers on many homes before you can find the lender who will work with your offer.

Also, if you send a list of repairs along with your offer to be reviewed by the asset manager, be truthful. Lying to the lender is fraud, and something you do not want to be a part of. I hear many other investors who tell me they send lengthy lists of repairs on a home to the asset manager of a short sale to try to convince them to take a low offer. This is fine if the repairs really need to be done. However, I have heard many say they claim the home needs a new roof when maybe just two or three shingles have been blown off. Or a two year old home needs a new kitchen because the cabinets are cherry and they prefer oak. Honesty is the only policy, and besides being wrong and illegal, the agent or appraiser who looks at the home will

note the true repairs needed on their report and it will likely kill the deal when the asset manager realizes the buyer has tried to mislead them.

Short sales are a great thing for buyers if the price is right. Many short sale homes are in better condition than bank owned homes that have sat vacant and deteriorated. They are also often located in more desirable locations. However, the key to investing in short sales is patience. Be sure to ask the listing agent what stage the short sale is at.

Has the lender gotten all the paperwork they need from the seller, has the BPO been completed, etc. If you are starting from scratch when your offer is submitted you may have a much longer wait than making an offer on a home that has already joined the stack on the asset manager's desk.

CHAPTER SEVEN: SELLING BY OWNER DOESN'T ALWAYS SAVE YOU MONEY

If your market is hot and you know the paperwork necessary to keep you out of trouble in order to sell your investment home by owner, then go for it.

But, if your market is like most places, you are going to need an agent.

As an investor who is also an agent I can go on and on about all the benefits of using an agent.

However, if you really want to know that you can read the sales pitches online. The two really big reasons you should use an agent are these: the agent has access to the multiple listing service and other agents and they are not emotionally involved in the house.

The multiple listing service is the tool that allows agents to show and sell listings that belong to other real estate offices. For example, although I am a

GMAC real estate agent, I can show and sell homes listed by a Re/Max or Prudential agent, etc. They can show and sell my listings. This happens very often. We advertise listings that we will let other agents show and sell on the multiple listing service, often referred to as the MLS. The local MLS in my area [looks like this](#). This MLS is only open to agents who pay to subscribe, which is why you can't search it. However, most of the local offices offer searches through their own website that allow public access. My webpage [offers a public search](#).

Real estate is one of the rare businesses that work like this. The sales rep at Wal-Mart would never take you across the street to Target if they didn't have what you wanted, but a real estate agent can and usually does.

This means if there are 1,000 real estate agents that subscribe to the multiple listing service in your town, there are potentially the same number of agents and any client they are working with looking for what you have to sell who could be coming to see your home. Common sense says this means you have a much better chance of selling your home that way than by running a classified ad and hoping a buyer will drive by and call you off of a FSBO sign.

I am an agent and I still list the homes I have for sale on the multiple listing service and I gladly pay the commission to the other agent and to my broker if my homes sell that way. In fact, I factor that cost in to my costs to redo a home.

The other reason you should use an agent, in my opinion, is that you are emotionally attached to this home you just worked very hard to rehab, and it's tough to take your emotions out of the mix when faced with a buyer. If the buyer is critical, you may feel less inclined to work with them when in fact they are only usually doing so to drive down the price so they can get a better buy. Or, you may be so excited to sell that you overlook warning signs that the buyer is not going to be able to make good on their promises.

Agents also do a lot of behind the scenes work that many sellers are unaware of. Once the home is under contract, the agent follows up with the buyer's lender to ensure that the loan process is moving along as it should.

This brings us to our next point....

CHAPTER EIGHT: ALL PREAPPROVAL LETTERS ARE NOT CREATED EQUAL

Your remodeling is done, your home was on the market, and now you have a buyer. The check should be coming soon.

But not always.

There are many very conscientious loan officers out there in the world who do great work and check out their buyers before issuing the golden preapproval letter.

Then, like in all industries, there are some who are not.

Many a seller has been disappointed by a supposedly preapproved buyer putting a contract on their home only to have the final approval of the loan never come.

Every bank has underwriters^{xiv} that decide in the end whether or not the buyer meets the lender's criteria for a loan, and sometimes the buyers circumstances change from the time of the original application and final approval. Sometimes the bank changes their standards and that buyer no longer meets their criteria. Sometimes the buyer is misleading on their application and when the truth is found out they are turned down. Sometimes the loan officer or mortgage broker didn't ask the right questions. There are a multitude of reasons why the closing of a sale on a property gets delayed or never occurs, but as an investor you need to know that this is always possible.

I have heard it said over and over again by disappointed sellers, "but they were preapproved!" Sadly, the key word here is "pre" and until you get final approval there is no payday.

Another aspect that investor buyers need to be aware of is seasoning. Some lenders require that the seller have owned the property for a specified amount of time before they will make a loan for a new buyer. We can thank the greedy unscrupulous sellers who did the bad kind of "flipping" for this. Many lenders made loans on homes that were not worth what they were to be sold for and are therefore leery of a home that is bought and quickly resold for a profit although it may be completely legitimate. Sometimes a buyer's loan will be turned down or

postponed for this reason. It's important to keep receipts and before and after pictures of the work that was done because I have been able to show the buyer's lender that my rehab was real and get them to approve a loan using these things. Make sure your list is truthful and accurate but be ready to provide it.

Another consideration is the way the end buyer will finance their loan.

My market area is very blue collar and many of the buyers live on a tight budget and do not have the money required to get a conventional loan these days.

Rehab investors were very busy in the days of 100 percent, no money down mortgages, and subprime loans^{xv} because banks had money to loan and they were very loose with it. This is part of the reason the housing bubble popped. Today's lending standards are much more stringent and buying with a loan is tougher than it used to be.

Most of the buyers in my area and in many areas are opting to use [FHA loans](#) because they only require a small down payment. This means that the homes they buy must pass FHA loan standards- in other words be in pretty good condition. Other buyers in my area use [USDA loans](#) because they require no down payments, but the homes must be located in a USDA approved area.

Familiarize yourself with the types of loans most buyers use in your market BEFORE you rehab your investment home so you know what criteria will have to be met. For example, if most buyers need a septic tank certification to buy on a loan in your area, it may be worth your while to have that completed in advance.

Interview the most active agents in your area for information on how most buyers in your market buy homes so you will know what to look for. Agents who offer you quality information and understand their business are the ones you will be looking for to list and sell your investment homes.

Another important fact to know is which homes spend the least number of days on the market before selling. Time is money so you want the home type with the highest appeal.

CHAPTER NINE: DO NOT MOURN DEAD DEALS

Do not go into a state of depression if you do not get the first few houses you make an offer on. Also, do not get upset with your agent if you are outbid on a home.

If an agent shows you houses that end up in a multiple offer situation (meaning more people than you are bidding on the home) be glad! That means they are showing you the good deals! If you are bidding on a home and no one else wants it, what does that tell you? Good deals draw lots of lookers, and sometimes you have to wait and be the lucky buyer who is in the right place with the right bid at the right time.

Bank sellers will often call for “highest and best” offers from buyers when they are in a multiple offer^{xvi} situation. This means they are, as one agent friend of mine put it, looking for the best offer to work with and “flushing the rest.”

This is when the buyers puts their cards on the table and reveal the best offer they are willing to make, hoping to beat out the competition.

The bank will then pick from those offers, and in general will not often counter^{xvii} the “best” buyer but rather accept their offer. Sometimes they will counter, however.

If there are not multiple offers the bank can reject, accept, or counter your offer. A counter is what they will be willing to take. The buyer can then counter that offer or accept it or reject it and things bounce back and forth until both parties agree or one gives up negotiation.

Always set a limit of how high you are willing to go before you go into a bidding frenzy. It's like gambling- know how much you are willing to lose before you join a poker game and get caught up in the excitement.

You must know how much you are willing to spend on a bank owned home and "know when to fold 'em." Set a limit for yourself and stop when you have reached it.

Remember, with so many homes in foreclosure, there are more where that house came from!

CHAPTER TEN: INVESTORS WHO LOVE REAL ESTATE DO WELL

I love inspecting, touring, listing, selling and rehabbing homes. As an agent I can peak into other people's homes and see houses I would never get to visit normally. I have a ton of weird and funny stories about real estate. When I look at a house I instantly rehab it in my mind, envisioning what I could make it be. Even the nastiest messes do not deter me.

Real estate is a lot of fun. But it can be stressful. I have opened the door to an abandoned pit bull, an abandoned mentally ill 6'4" angry man; feces smeared walls and squatters. Be prepared that investing in real estate isn't always glamorous, and HGTV isn't real life. I often write about these things on [my blog](#).

That said, real estate is an investment that's real. It's a tangible undeniable thing that doesn't just exist on a stockbroker's computer some place. It's something anyone, if they are determined enough, can understand and make money

at. It's hard work and sweat but it's also an investment you can have pride in at the end of a job well done.

If you are just starting out in the real estate investment business, I hope you will one day drive your friends through town and point out all the homes you own or have owned with pride.

I hope you get Christmas cards for years like I have from one buyer who still thanks me every holiday for helping her buy her first home ever at age 65. It warms my heart to read her words. "Thank you, Maria, we still love our home!"

I look forward to hearing about your big pay days in real estate!

ABOUT MARIA CENTER.....

Maria Center is a full time real estate agent with Big Hill GMAC in Ohio who specializes in short sales and REO (bank owned) homes and investments. She has a B.A. in English/Journalism from Miami University and is an [e-Pro certified agent](#).

Maria Center was formerly a reporter for [CityBeat newspaper](#), the [Hamilton Journal News](#) , and the Miamisburg-West Carrollton News. She is a member of the Society of Professional Journalists, the National Association of Realtors and the Middletown (Ohio) Board of Realtors.

ⁱ Foreclosures occur when an owner defaults on a mortgage agreement or tax bill and legal action is taken by usually the bank holding the mortgage or county in the event of a tax foreclosure.

ⁱⁱ A short sale occurs when a lender agrees to take less than what is owed to them by the seller in order to avoid having to finish the foreclosure process on the home, usually in an effort to save holding costs and legal fees.

ⁱⁱⁱ A bank owned home is a home a lender has foreclosed on and regained ownership of through foreclosure. Lenders refer to such homes as REO, which stands for “real estate owned” by the lender

^{iv} A tax sale in my area occurs when the homeowner does not pay their property taxes and the local government forecloses on the home so they can sell it and recoup their tax losses

^v In the part of Ohio where I live, the local sheriff's department is in charge of auctioning off foreclosed properties to buyers, and these sales are referred to as "sheriff's sales"

^{vi} A landlord is the brave soul that owns rental property and rents it to tenants.

^{vii} A tenant is someone who rents a home.

^{viii} Cash flow is the amount of money a landlord makes every month in profit after all expenses are paid on a property.

^{ix} In some areas of the country land contracts are called "contracts for deed" While land contracts are sometimes complex legal documents, the short explanation is a contract in which the seller acts as the bank for the buyer, carrying owner financing on a property usually until the buyer can solve credit or financial problems that are preventing them from obtaining traditional bank financing on a property.

^x A lease option is a lease in which the tenant has the option to buy the home on prepared terms within the time frames of the option.

^{xi} An option fee is a fee paid to purchase an option to purchase a property. Too many options here have you confused ☺? An example... a tenant pays a \$3,000 non refundable option fee to the seller in order to secure an option to purchase the home they are renting one year from that date for \$100,000. The option holder does not have to exercise their option (in other words, they are not agreeing to buy the home, they are just agreeing that they have the option and how much it will cost them if they do.)

^{xii} A loan in default is one in which the homeowner is behind on payments. Most lenders start the foreclosure process when a borrower has gotten three or more months behind.

^{xiii} A BPO, or broker price opinion, is an analysis completed by a real estate agent on what a property is worth. Banks hire agents to perform these BPOs to determine what a property is worth.

^{xiv} An underwriter works for the lender verifying the loan meets the guideline set forth by the lending institution.

^{xv} A subprime loan is a loan that falls outside of the guidelines of Fannie Mae and Freddie Macs automated underwriting system. An automated underwriting system is a computer system that analyzes the details of the loan and compares it to the standards and regulations set forth by Fannie and Freddie. Subprime loans are not guaranteed to be able to be sold on the tertiary market.

^{xvi} Multiple offers mean just that- the seller has received more than one offer at the same time on a property.

^{xvii} A counter offer is when a seller looks at an offer, decides that they would like to work with the buyer, but wants to change the terms. The seller will reply with the terms they would be willing to take, and the buyer can either accept the counter or propose a counter of their own. This goes back and forth until a deal dies or the two parties can come to an agreement.