RAISING CAPITAL

FOR

REAL ESTATE INVESTING

RANDOLPH E. BRYNNER

RAISING CAPITAL FOR REAL ESTATE INVESTING

AN IN-DEPTH LOOK AT 5 METHODS TO RAISE THE MONEY YOU NEED TO START YOUR NEW BUSINESS USING PERSONAL OR BUSINESS LOANS, GRANTS, CROWDFUNDING, AND ANGEL INVESTORS

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INTRODUCTION

> *"Ninety percent of all millionaires become so through owning real estate. More money has been made in real estate than in all industrial investments combined. The wise young man or wage earner of today invests his money in real estate."*
>
> — ANDREW CARNEGIE

I bought my first property in 2007. I am met with either condolences or applause whenever I tell people this. For the uninitiated, 2007 was a tricky year for the real estate market. The US was going through the subprime mortgage crisis, popularly known as "the housing bubble." For almost a decade, people who could not afford to borrow too much were given loans to encourage American homeownership. Obviously, this did not go to plan, as people started defaulting on their mortgages.

Long story short, 2007 to 2009 saw crashing markets for all assets. When people hear that I entered the market during this turmoil, they automatically assume that I either made a lot of money overnight or lost it in the blink of an eye. In reality, neither of these was true.

Now, why would I start this book on real estate investing with one of the worst crises real estate investors have witnessed in

living memory? To scare you off? Absolutely not! Quite the opposite, actually. It is to highlight that though people around you act as if they know a lot about real estate, it remains one of the most misinterpreted assets. During the above crisis, those who maintained the right mindset and were willing to play the long game did just fine. On the other hand, those who bought properties solely hoping for a quick and lucrative resale were left in the lurch.

WHY REAL ESTATE INVESTING?

The biggest lesson that the crisis taught investors was that real estate investing isn't a "get rich quick" scheme. There is much more to it than just buying and selling property, and we will discuss all this in the coming pages. Once you understand the fundamental intricacies of real estate in general, you will find that the stability it provides to your investment portfolio is nothing less than a boon.

Having said that, investing in real estate is not an easy decision, especially for a beginner investor. Let's face it—investing of any kind is an intimidating task. Putting away your hard-earned money in the hope that it will multiply is not a small ask. The uncertainty alone is enough to make any new investor nervous. Add to it the substantial capital required to invest in real estate specifically, and most beginner investors are just about ready to lay down their weapons right away. I see many beginner investors shying away from real estate, and it's a shame, really, because where they see the hurdle of the large capital requirement, I see potential for infinite opportunities that can change their lives just the way it has changed mine.

I know what you are thinking—it's easy for me to say that now that I have overcome the initial obstacles. But honestly, I would not have the comfortable lifestyle I enjoy today if not for my real estate investment portfolio. If building wealth for yourself and your loved ones is your prime objective, then I assure you—you are in the right place.

Once, when I said this to a young man asking my advice on investments, he responded, with a skeptical tone, "But come

on, don’t you think stock markets are an easier point of entry for a beginner investor?” And I do see the validity of his argument. One of the most common dilemmas beginner investors face is stocks or real estate.

The truth is that there are pros and cons to each. Stocks allow you to kick-start your portfolio with much more manageable capital while keeping your funds quite liquid. With real estate investing, you lose out on both of these aspects. However, if you are looking for stability, real estate is a safer bet because stock markets tend to be much more volatile than real estate. Real estate also allows for huge profit margins.

Whenever this debate comes up, I am taken back to my first memorable encounter with these two assets. To be honest, when I began my investment career, I was also what you would call a “stocks guy.” I kick-started my investment portfolio by buying tech stocks. Remember, this was in the ’90s, so the tech companies were growing at an insane rate, and I was just one of the many who wanted to cash in on that opportunity. With the approach of the year 2000, there was also the fear of the Y2K bug. When the anticipated disaster did not happen, the stock markets crashed unexpectedly, and my initial investment of $75,000 shriveled down to a mere $15,000. As a beginner investor, that massive hit should have destroyed me. But thankfully, real estate ended up saving me. In 2007 I managed to secure a loan using the 15k left in my name as collateral and bought my first duplex property. I lived in one half and rented out the other. Real estate helped me stay afloat when I had nothing else going for me.

Of course, stocks are still a part of my portfolio, but not as much as they used to be. I have realized that real estate is a more reliable investment. Your goal should be to create an investment portfolio that gives you the best possible output

under all economic conditions. So, rather than deciding which is better, I often encourage people to think about which is more suited to their needs.

For instance, if you have little time to devote to your investment portfolio outside of your full-time job, long-term stock investments might give you a small but steady supplemental income. However, real estate is the way to go if you are looking for high returns, high stability assets. The fact that you have picked up this book tells me that you, like me, belong to the latter category of investors, and in *Raising Capital for Real Estate Investing*, we will explore real estate as a means of creating the exact life you desire and not as just another asset.

WHY THIS BOOK?

Okay, let's try a small activity: Think about a millionaire businessman or a celebrity. Easy enough, isn't it? Now, think about a millionaire real estate mogul. Several names likely popped into your head immediately for the first question; I will bet the second question had you drawing a blank, though. Does that mean there are no real estate millionaires? Hold on before you jump to any conclusions—and let me ask you one more question. Have you ever heard of a certain Mr. Leonardo DiCaprio? Or perhaps a powerhouse icon by the name of Oprah Winfrey?

Sure, we all know them as media legends. What most may not know, though, is that their real estate portfolios have been a massive contributing factor to their accumulated wealth. So, even when real estate investing may seem like a well-kept secret, you can be sure that the wealthiest people are making the most of it. And through this book, I want you to see the enormous impact real estate investing can have on your own life.

Since my first purchase in 2007, I have not looked back. Real estate investing has been the greatest contributor to my wealth-building journey. Of course, I stumbled many times. I had to learn my lessons the hard way, but I have compiled my many years of experience into this book so that you do not have to make the same mistakes I made. Accumulating wealth through real estate investing will be a much smoother and mess-free process for you, thanks to the knowledge in the coming pages.

You will notice that the book has two parts: Part I will help you understand real estate investing, including the

fundamental principles, the required mindset, and so on; Part II will discuss the specific aspects of raising funds for real estate investing. Now, I know that you are itching to get started and might be tempted to jump straight to Part II, but if you are a beginner in real estate, then I strongly urge you to walk all the steps with me because without the basics firmly ingrained in your mind, you will find the world of real estate investing quite chaotic.

True real estate investors are in it for the long haul and find that patience and consistency are their best friends along the way. All that you will read in this book are lessons accumulated over the years. These are not intended to give you a shortcut to a fat bank account but rather to make it easier for you to make informed decisions that will help you build your dream life.

Now, I want you to close your eyes and picture that dream life—do you see yourself sunbathing on a beach in Hawaii, or maybe having a relaxed brunch with your loved ones, or even strumming those guitar strings while jamming with your buddies? Whatever it may be, I want you to feel the joy it brings you because real estate investing can give you the financial freedom to turn that vision into reality. And with that vision of your happy place locked in your mind, fasten your seatbelt, and join me on this rollercoaster that is real estate investing.

PART I

A ROADMAP TO REAL ESTATE INVESTING

This part gives you an overview of the real estate investing world—the benefits, the prerequisites, the fundamental principles, and the various types available.

1

WHY INVEST IN REAL ESTATE?

> *"Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world."*
>
> — FRANKLIN D. ROOSEVELT

President Roosevelt knew what he was talking about—and I can give you a hundred reasons why real estate is great for your investment health. But just because something is good does not mean it will feel nice and comfortable. Think about it —just because kale is fantastic for your health does not mean it tastes good. In that sense, if you are not mentally and physically ready for the benefit that something brings you, you will never truly allow it in your life. Think of the countless people that have tried a weight loss regimen only to find that they slide back into the habits of their comfort zone.

Real estate is no different. While it is excellent for wealth accumulation, you can be sure that it will not be the most comfortable step you will take. I have seen far too many investors jump in, hoping that real estate will generate quick wealth for them, almost like they believe it is an alternative that will allow them to bypass all of the hard work. The result is the same every single time—those who get into real estate hoping to make a quick buck end up so disappointed and

frustrated that they inevitably make the wrong choices that lead to their doom.

I sometimes want to grab these new investors by the shoulders, shake them, and tell them that real estate is not an easy alternative to hard work. But it does give an investor a strategic pathway that ensures excellent output. I want you to clear your mind of any false myths you have been led to believe—that is the only way you will find success. This chapter will help you develop a clear understanding of what real estate *is* and what it is *not*. At the end of this chapter, you will be crystal clear about why real estate investing is an excellent option for you and also why you may not be ready for it *yet.*

REAL ESTATE INVESTING TIDBIT

The US real estate market is about $33.6 trillion (Fink, 2022.) That's $33.6 trillion that you can take advantage of when you invest in this market. Isn't that too good to let go of?!

SOMEONE LIKE YOU

Do you subscribe to the idea that real estate is not for “regular folk” like you? Well, Sarah Park is a “regular folk,” too, and she would disagree. Sarah is a senior product designer from the San Francisco Bay Area and has seen tremendous success with her real estate investments. Her success did not come overnight, though. She researched and went property hunting for almost six months before finding a single-family rental that fit her strategy requirements. But it was all worth it in the end when she was able to take home a net cash flow of about $3,000 at the end of the year. Not too bad for someone’s first attempt at real estate, is it?

THE GOOD, THE BAD, AND THE UGLY OF REAL ESTATE INVESTING

Let me ask you this: What comes to your mind when you think about real estate investing? A sleazy real estate agent, hair slicked back with gel, trying to schmooze up a bad deal with no winners other than himself, or maybe a grumpy old landlord refusing to listen to your repeated requests to repair the heater in your room? I don't know about you, but I certainly had that impression when I was about to begin my investing career. Real estate did not symbolize the prettiest or the most lucrative prospects in my head. Similar perceptions have persisted over the years among a majority of people.

While it may be true that there are sleazy real estate agents and grumpy landlords, you can rest assured that there is a lot—and I mean a *lot*—more to real estate than just that. But just as with every other profession, there are the good, the bad, and the ugly in this profession as well. You must be well aware of where the landmines are and where you can find a diamond in the rough.

I know I have already said a lot about why real estate is an excellent investment. But for you to be able to distinguish between this supposedly great investment and a profitable-looking Ponzi scheme, there have to be definite quantifiers. Sure, these quantifiers may seem like they exist to glorify real estate investing to the novice—and this is not entirely false—but more importantly, they can serve as markers to determine if the investor is on the right track.

#1 Steady Cash Flow

Steady cash flow is one of the top reasons investors prefer investing their money in real estate. When you invest in real estate, your money is not stuck in a shoebox somewhere at the top of your closet. Instead, it is actively engaged in a process that brings in more money. At its core, cash flow is how money flows in and out of your business ecosystem. In real estate, it refers to the difference in the amount spent on the property, for instance, mortgage or maintenance and repair, and the amount that it generates may be in the form of rent. So, essentially, it is the money that you are left with at the end of the month after the bills are paid.

In theory, cash flow can be either positive, negative, or zero, meaning you are either turning a profit, a loss or breaking even, respectively. As an investor, it's obvious what you should be aiming at. If done right, real estate has an excellent potential to create an incredible positive cash flow for you. A consistently positive cash flow can become one of the most crucial tools in building capital for your future investments.

Remember, when we talk about real estate investing here, we are not thinking of merely purchasing one property deal, whether renting or selling. We are thinking of a much broader scenario. Mainly because in the real estate markets, while your first deal may give you a certain amount of profit, you only start uncovering limitless opportunities when you continue to reinvest in more deals. Think of this as a cumulative process, not only in terms of money but also in terms of experience and skill as an investor.

A healthy positive cash flow might not seem like a big deal when considering, let's say, only one rental unit. For instance, I was happy with the small profit I made when renting out the other half of my residence. At first, it did not seem like much, but eventually, it was this small profit that I made every month that allowed me the liquidity to invest in more properties to create more positive cash flows. So, my advice to anyone beginning their real estate investment journey is to not look at cash flow as mere profits you earn but as a way to expand your investment opportunities.

#2 Tax Breaks

Giving your hard-earned money to Uncle Sam in the form of taxes is nothing less than painful, and it is an unavoidable reality that we all must make peace with. But if you are a real estate investor, you could feel a little less of a tax pinch than most people. Going into every tax deduction might be a little too much detail at this stage, but here is a brief overview:

- ***1031 exchange:*** This is a brilliant allowance that the government makes for investors who reinvest the proceeds from the sale of a property. Here is how it works: Let us say you sell a property you own. Typically, this would be considered as a capital gain,

and you would have to pay capital gains tax on the amount you cash out. But if you decide to use the amount you earned through the sale to purchase another property of the same or higher value, then your investment can grow tax-deferred. Essentially, through this strategy, you exchange one asset for another without paying capital gains tax, hence the name.

- ***Tax write-offs:*** As a real estate investor, you can claim multiple deductions on your taxable income. Any property management expense can be deductible such as maintenance and repair of the structure, property taxes, mortgage interest, insurance costs, etc. Moreover, you can even deduct qualified business expenses such as legal fees associated with your investment portfolio, advertising for vacancies, and so on. These write-offs ensure that you have a much better final cash flow.

- ***Depreciation deductions:*** These deductions deserve a special mention for their sheer size. The Internal Revenue Service (IRS) allows for a depreciation deduction on your taxes. Property, specifically the building structure you purchase, undergoes wear and tear over time, depreciating its value and requiring you to invest funds to repair and maintain it. You can then deduct this depreciation as a business expense. The IRS has specific guidelines for this deduction which you must strictly follow. Nonetheless, this can substantially lower your yearly tax obligations.

These tax benefits are only the most common and significant I will mention, and only in the briefest way possible. There are many other tax intricacies that can work in your favor when you invest in real estate.

#3 Passive Income

You should know upfront—you will not start bringing in a passive income from traditional real estate right from day one. That is just not going to happen. If someone promises you that it will, you can be sure that they have no clue what they are talking about. By traditional real estate, I mean buying and selling properties, rental properties, etc. With such options, you can create a passive income only once you have spent enough time and effort building a solid system for managing your sales or operating your rental properties.

The beauty of real estate investing is that apart from these traditional options, it also allows investors to take a more hands-off approach through REITs, REIGs, vacation rentals, house hacking, and more. We will discuss each of these when we talk about types of real estate investing in a later chapter.

Whichever path you wish to take, hands-on or hands-off, I want you to remember one thing: The only way this can bring in substantial passive income for you is if you treat it not as a hobby but as a serious business opportunity. There is often a misconception among people that passive income implies no effort. The truth is that creating a passive income stream requires more effort because you need to be aware and up-to-date enough to keep it going in the future without your constant active involvement. You will still need to evaluate and upgrade the systems you put in place if you want to have any chance of having a permanent passive income stream.

#4 Security Against Inflation

Even if you are not much into economics, I am sure you are familiar with inflation because of how closely it impacts you. Inflation reduces the purchasing power of your money. For instance, did you know that back in 1913, $1 was almost equivalent to $26 in 2021 (Bhutada, 2021)? That is a $25 jump in just over a century, this might not seem like much when you look at one lonely dollar, but for larger sums, this is a massive increase.

Now, if years do that to your money, think about what it would mean for your savings, especially when you have kept them in, let's say, a bank account. You can be sure that no bank will earn you a rate of interest that can keep up with the inflation rate. Therefore, the only sensible way forward is to put your money in assets that can beat inflation. Real estate is one such asset that can change the game for you by beating inflation.

Remember that real estate is an appreciating asset that grows in value over time; this makes perfect sense since the number of people on this Earth is increasing daily while the space in which they can live remains the same. We only have this one planet to live on, after all! That does not mean you should mindlessly dump your money in real estate, of course, but thought-out real estate investing can mean that the money you put in today will be worth much more in the coming years.

#5 Diversification of Investment Portfolio

Though I stress so heavily on real estate, let me be perfectly clear: no single asset can protect you against all economic conditions. In the world of investments, you will often hear about asset classes. An asset class is nothing but a group of investments that work similarly. On the other hand, investments that belong to different classes function differently.

You will see several categorizations of these depending on the source you look at. But stocks and equities, bonds, commodities, real estate, and currencies are some of the common examples of asset classes. Going into each of these would be outside the purview of this book, but I want you to take note of the diversity of options you have available when you decide to invest.

For most people, bonds and stocks are the only assets that come to mind when they consider investing. Experts suggest that your investment portfolio be as diverse as possible, meaning that you invest in as many asset classes as possible because of their different reactions to market conditions. As discussed earlier, real estate brings stability to your portfolio, primarily because it has distinct characteristics that separate it from other asset classes, thus behaving very differently. For instance, when financial markets crash, the real estate market has remained largely stable, except under extreme circumstances.

If you are getting excited and want to jump in and start your real estate adventure immediately, hold your horses! Why do I say that after going on about why real estate is so awesome? Well, it is because I have seen far too many people get in too deep, too quickly, and then regret their decision, even though this should have been one of the best decisions they ever made. Some real estate enthusiasts will tell you that buying property is *always* a good idea. I am here to tell you the truth: *not all* times are the best for buying property.

#1 Your Finances Aren't Aligned With Your Goals

What does it really mean to align your finances? How do you know the finances are in order; this may mean different things for different people, but in my opinion, whichever way you approach it, it comes down to three essential aspects:

- ***Savings:*** It is essential you have substantial and consistent savings in your name; this means that what you spend must be less than what you earn, allowing you to put away a certain amount for the rainy day, popularly known as an "emergency fund." Now, I know this slightly contradicts what I said about inflation eating away at your savings. But here is the thing: While it is true that investments can protect you against inflation, it is also crucial that you have funds that are liquid to be used in an emergency and hence the need for an emergency fund.

The next obvious question is, what is this "certain amount" I mentioned? Again, there is no set formula, and this has often

been a topic for debate among experts. While some believe that you must have three to six months' worth of expenses put away, others believe that keeping an emergency fund of $1,000 allows you to put the other savings to better use for higher returns.

- ***Credit rating:*** Real estate is a big undertaking, and you certainly cannot pay for this investment with cash out of your own pocket; this means that you would need to take on loans which we will discuss in detail in Part II of this book. However, if you even hope to get to that point, you must have an immaculate credit history. Credit history records how well you keep up with your debt payments, such as credit cards, car loans, etc. This credit history is then recorded and made available as credit reports by three major credit bureaus: TransUnion, Experian, and Equifax. This credit history indicates to lenders whether they should take a chance on you by lending you their money.

- ***Insurance:*** This detail of financial management is ignored far more than you would think. Remember that the most crucial element of personal finances is to foresee financial risk and protect your wealth against such contingencies. Only when you feel secure enough in front of unexpected life events will you be able to make investments without fear.

#2 The Capital Requirements Are Not Fulfilled

Real estate investment can never be an impulsive decision. It is crucial that you have sufficient capital saved up before your first deal. By that, I do not mean the whole amount you would

need for the purchase. The required capital should be an amount that is just enough for you to secure good, top-tier financing.

Different lenders will have different capital requirements; this means they have different percentages of the total price you will need as a down payment. These can go up to as much as 25%, so you must research lenders and their offers beforehand. For instance, for a $100,000 deal, one lender might have a 15% requirement, while another might have 25%; this would mean that in the former case, you would need to have only $15,000 in the capital, while the latter would require you to have $25,000. Follow me? While you will want to secure the deal by putting in the least amount of money from your own pocket, it is recommended that you put in at least 20%. This percentage ensures you are not struggling with your payments, yet you will still have substantial equity in the deal.

#3 You Don’t Consider Yourself Number-Savvy

In all my real estate investing years, I have often found that newbies tend to associate number crunching with stock analysis and pure gut feeling with real estate; this is a big misconception. If you turn toward real estate because you think it will take numbers out of the equation, then you are setting yourself up for some big trouble.

Numbers are at the heart of making good choices in the real estate market. As an investor, you will need to know several figures like the back of your hand. These will include cash flow, down payment, mortgage payment, interest, return on capital, and so on. Moreover, these numbers not only enter the picture after the deal is made but way before.

Real estate has a way of making us rely on our feelings —“Does this *feel* like a good deal?” While these gut feelings

can sometimes come in handy, they are not something you should fall back on as you learn the ropes of this business. Numbers take the emotion out of the deal and help you look at the investment scenario in purely profit and loss terms. This objectivity goes a long way.

#4 You Are Planning to Simply Wing It

When I was considering investing in real estate, many people asked me if I was absolutely sure—"It is a lot of work," they kindly informed me. Looking for properties, completing the formalities, dealing with lenders, running behind tenants—that did seem like a lot. Today, I understand how limited that viewpoint was. Indeed, today, I know that not all real estate dealings mean investing. Take, for instance, something like house flipping or wholesaling property. Sure, these tend to come with a payout at the end, but do they really help establish a system that can work on its own? Well, no, not really.

I wish someone had told me this when I was first starting out, but I soon realized that there are real estate jobs, and then there is real estate investing. The former refers to the scenarios above, while the latter refers to holding on to the asset. When you think long-term, you will find that even though you work for that asset for now, eventually, it will start working for you. And that makes all the difference.

Going in without a strategy is like going behind enemy lines blindfolded. Therefore, no matter what, you can not measure your real estate success in terms of the deals you make. Instead, you will need to think about the *why* of those deals, evaluate whether they contribute to your long-term investment goals, and how you can make your money work for you rather than the other way around.

#5 You Haven't Developed the "Investor Vision"

One non-negotiable trait for an investor looking for success in real estate is the ability to visualize what is not there yet. If you wish to take up deals only for the prim and proper properties, it is likely you will not go far in this business. In fact, experts recommend that you invest in new properties sparingly. Taking a property that is not in its ideal state and adding value to it may be your ticket to wealth.

That does not mean you should purchase an absolute ruin and let it drain you of your money, energy, and time. Rather, it's all about understanding which properties can be quickly turned around and made more appealing. Let's think, instead, of a house with good bones that has peeling paint and a shabby front yard—all it may take to make this property more appealing to tenants is a quick paint job and some basic landscaping work. Since it's not in the best shape presently, you could also get it for a lower price. Without a vision, one will never be able to see how lucrative a property like this could become.

As an investor, you also need to be able to keep up with the market trends while screening out the ones that do not align with your long-term vision—what kind of locations and neighborhoods do you want to invest in, what kind of amenities and other living details do you want your tenants to have, and so on. Only when you have a vision for what your investment should look like will you be able to work on these details coherently.

All of these aspects, while 100% valid, are not written in stone. No one and I mean *no one*, is born a perfect real estate investor. All of these aspects can be worked upon. Looking back, I see many of these traits in the young me. I wish someone had told me what I am telling you, but as I said before, I had to learn it all the hard way through my own

experience. You don’t have to do that. So, if you see any of these in yourself, I want you to chin up and start working on them.

Start with one thing at a time since overwhelming yourself with everything will not help. You can start by getting as much information about real estate as possible through the latest news, people in this field, etc. Or you can start following a budget and building up that emergency fund. Whatever you decide to do, remember that you will not see success right away. You will be frustrated and might even want to quit, but the key is persistence. And persistence is to the investing mindset what oxygen is to breathing—a necessity!

KEY TAKEAWAYS

We have discussed quite a lot in this first chapter. The goal here is to start with a clean slate so that your perceptions are not clouded by what people have told you or what you have previously believed to be true. The decision to become a real estate investor is yours alone. You owe it to yourself to make this decision well-informed. Here are some highlights to help you:

- Real estate investing is not for those looking for a shortcut to the top. It involves serious hard work and a strategic approach to find success in this realm.
- When done right, real estate is a great way to create positive cash flow to help you accumulate capital and even create stable passive income.
- A great benefit of this form of investing is the several tax benefits that you can claim—be it the 1031 exchange, the depreciation deductions, or even the deduction of various business expenses—as they all can greatly reduce your taxable income while allowing you to take home fat profit margins.
- Since real estate is an appreciating asset, it is very efficient at helping your wealth grow at a rate faster than the growing inflation. It is also great for diversifying your investments, thereby giving you better protection against wider market fluctuations.
- While the advantages are significant, there are also specific requirements that you must fulfill to make the most of this asset:

1. Have enough savings
2. Build an emergency fund
3. Get insurance
4. Do appropriate research on lenders and their capital and down payment requirements
5. Make sure you pay attention to the numbers associated with properties
6. Pick properties that you can add value to
7. Have a long-term strategy in place

Now that we have discussed the essential elements, I know you are thinking about *how* you can go about the task of executing these elements. In other words, it is time to move on to the bigger picture of developing the right mindset. It is this mindset that will bring together all of the dos and don’ts that will help you build a real estate empire.

2

BEFORE YOU BEGIN

> *"The most important quality for an investor is temperament, not intellect."*
>
> — WARREN BUFFET

They say battles are either won or lost, first and foremost, in the mind. A calm and steady mind is the weapon that you will fall back on most frequently when you are an investor. It is easy to be optimistic when everything is going great, but positivity is a challenge when things start going south. When I lost almost all of my money in stocks, I had two options: Either give up on my dreams of financial independence or I could look for an alternative. Believe it or not, investing of any kind will test your resilience. Real estate is no different. It is in these testing circumstances that you will need to make sure you have the right mindset to get out of the fog.

In the last chapter, we discussed what needs to be done to climb the ladder of success in real estate investing. In this chapter, we go one step further and determine *how* you can do it. Of course, no one solution fits all whenever we talk about finances. So, the *how* will be different for everyone. But that does not mean we cannot agree to a general framework. That

is precisely what we will create in this chapter—a general framework designed to boost your success.

REAL ESTATE INVESTING TIDBIT

Are the massive property prices making you hesitant about investing? Real estate investing may seem costly, but creative financing can help you cut your out-of-pocket investments to a minimum. What could be better than making money using someone else's money?!

SOMEONE LIKE YOU

You may be wondering, "*All this hullabaloo about starting real estate investing is fine, but where and how do I start?*" Well, Melanie Bajrovic's adventure might be exactly what you need to get started. This 27-year-old bartender successfully made the transition and has some advice for you. According to her, the "don't have enough money" hangup just doesn't make sense. She believes that the way to go about real estate investing is first to find good deals and then work your way backward to save up the required capital. Starting small with single-family units worked perfectly well for Bajrovic, who was able to accumulate the capital she needed and then make the jump that changed the game for her—her first commercial property. As of now, her net worth is in the millions. She was not served real estate success on a silver platter. All she had was the hunger to go after what she wanted, not impulsively, but in a well-thought-out manner!

What do you think is the difference between successful and unsuccessful investors? The amount of work they put in? The amount of capital they have? Maybe sheer luck? You will be surprised to know that none of these answers are correct. These are, of course, important contributors to how successful one will be, but the one distinguishing factor that separates success and failure is the investing mindset. How else would you explain why equally hard working investors have widely different reactions to failure? While one may go into a downward spiral, the other chooses to learn their lesson and bounce right back.

The right investing mindset has two major elements to it—attitudinal and financial. Let's try to break it down.

Attitudinal Aspects

The thing about successful people is that they make it look easy. On the outside, it may seem like they were born to do what fetched them success; however, people hardly pay attention to the constant grind they have undergone to reach the peak of success. If anyone tells you they can help you get to the top without the grind or even without failure, pack your bags and run as far away from them as possible. One of the many things I have learned in my years as a real estate investor is that there are no shortcuts to the top. Here's how you can bring in the attitudinal changes that are essential to the right investing mindset.

Taking the Leap of Faith

Real estate success is all about the conviction you have in your project. There will be many sources around you that will try to

discourage your involvement in real estate. Be it friends and family or the media in general, someone will try to tell you it is too risky to take on. No doubt, real estate is a risky proposition. But the only question you must ask is: Is it a calculated or reckless risk? Becoming a successful investor comes to toning this risk down to a minimum with careful strategizing, and that is all you can ever do.

The important thing to know is that the risk will never be zero. If you are waiting to find a completely risk-free deal, you will be waiting all your life and then some more! At some point, you need to take the leap of faith and start having conviction in your project regardless of what others say about it. If you have crunched the numbers and you have sound reasoning as to why you are going with it, that is all you need. Not to say that the projects you have complete confidence in will never fall through. Some of them most certainly will. But keeping away from a project for fear of failure is like not walking for fear of falling—it just doesn't make sense.

Now, where do you bring this conviction from? Well, that comes only from a deeper understanding of the subject matter. I suggest that you read a wide variety of sources on real estate. Interact with people already in the field, be open to their experiences and perspectives, and consider getting professional help from a real estate investment coach.

But when doing all of this, remember that this is just a preparation for the next step; don't linger on this one for an eternity. No matter how much knowledge and information you gather, it will never seem like it is enough. So, once you feel confident you have a grip on the basics, go out there and take on a project.

Practicing the Art of Networking

You must be a team player to be a successful investor in this arena. Your network will undoubtedly be one of the most important assets you will have along the way, and therefore, you can never let your networking skills get rusty. When I talk about networking, what most likely comes to your mind is conference rooms full of overenthusiastic people handing out business cards like candy on Halloween. If you have conjured up this image, then you are probably also familiar with what most likely happens to the stacks of cards once the networking event is over—all of them find their way straight to the trash can.

Networking is not about giving people your card and telling them who you are and what you do. They can find all that much faster now with the internet; instead, it is about telling people what you can do for them and forming genuine connections. Even when these connections are formed, most people hardly take the time to nurture them enough because they just do not know how.

The best way to nurture your network is through referrals. For instance, if an acquaintance asks me if I know a good contractor and I already have one in my circle, then connecting them both over a call right then and there works out to be fantastic. Now, I have an acquaintance who is grateful to me for my prompt assistance and a contractor who appreciates my thinking about them. Of course, referrals are not a way for you to keep score. You might not see the fruits that your network bears for a long time to come, but I promise that when you do, it will all be worth it.

Having an Infinite Learning Perspective

Whether you are a beginner in investing or an experienced investor, remember you are forever a student. Once you start

making successful deals— which you will soon—it is easy to get lost in the illusion that you know “all the tricks of the trade.” It is this attitude that brings about the downfall of many. The crucial thing to remember here is that markets are always in a state of flux; they are constantly changing. An investor that is unwilling to adapt is bound to perish, no matter how good they are.

Also, remember that you might be required to dabble in a few more things than just plain real estate as an investor. For instance, you will need to be fluent in legalities associated with zoning, tenant rights, and so on; you will also need to have a basic understanding of repair and maintenance in buildings, including construction, electrical, plumbing, etc. It is only possible to learn about everything you need to know once you are an open and absorbent sponge taking in everything from your surroundings. You do not need to be an expert in all disciplines, as that is impossible, but you do need to be willing to learn at least the basics.

You might be wondering if every real estate investor knows all this; no—not all do—just the successful ones.

Accepting Situations That Cannot Be Changed

The zealous investors will tell you that you must engage in flawless planning and be ready with backup plans at every point along the way. Yes, well-laid plans are essential, but there are some aspects you cannot control, no matter how many backups you design. Think of changing policies or economic conditions that you can do nothing about. Especially in real estate, you will encounter many situations that test your resilience as an investor.

I am not telling you this to discourage you in any way. On the contrary, being aware of these uncontrollable circumstances

will help you face them with more practicality and patience. For instance, no matter what timeline you have planned, you might not find an investable property for months. If you understand that this situation is out of your control, then you will be much more persistent. Someone who is rigid about their plans may enter into a hasty decision, which may be less than ideal.

The only way forward is to accept these changes and tailor your plans around them. Sure, it's only human to feel frustrated and disappointed. However, in those times, you must remind yourself of the bigger picture—of why you are doing this—and keep pushing ahead no matter what.

Visualizing Success

If you are to believe recent psychological research, seeing really is believing. One study has proven that those who visualized lifting heavier weights during exercise actually did better than those who did not engage in any visualization (Hynes and Turner, 2020.) You can use visualization, too, as a tool to fetch success.

This is not just about imagining things in your head. Instead, visualization takes imagination one step further by making it as real as possible. Take, for instance, the amazingly innovative technique Jack Canfield, the author of *Chicken Soup for the Soul,* used—he recalls typing out the name of his just-completed book in the first position on the New York bestseller list in the same font and pasting it up on his vision board (2014).

Your vision board can be anything you want; there are no rules, so go crazy. Take a picture of that perfect property you would like to own and put it on the board for you to see every day. Or maybe go ahead and create a brand name, conjure up a

brand logo, or even imagine your dream office—the possibilities are endless. Spend a few minutes every night before you go to sleep visualizing the exact life you want to live. This is not the time for logical reasoning about *how* you would be able to live. Right now, all that matters is that your brain sees these possibilities as a reality as if it is all already happening.

Financial Aspects

We already discussed the importance of keeping your finances in order. But people find this difficult to do because they don't know how. Remember the aspects we discussed earlier—savings, credit rating, and insurance? In this section, we are going to go over practical tips for how you can go about managing these. But before we get to that, I want you to try to get to the root cause of these money troubles. Without that, no matter how hard you try to solve these problems, new ones will keep erupting.

The scenario I see far too often these days is that of "lifestyle creep" (Sato, 2021.), which happens when an increase in income encourages people to expand their lifestyle beyond their means, resulting in declining savings and increasing debt. People may feel like they deserve the *finer things in life* once their income increases. It is natural to want a better lifestyle, especially in this day and age. Designer brands, fine dining, and fancy living all make for great posts on your social media. However, always chasing this feeling can be disastrous for your long-term finances. If you find yourself getting carried away in this regard, it is time to consider switching to a minimalist lifestyle with the least possible possessions and audited spending. But if that seems too difficult, start with a few of the things below to get your financial house in order.

Taking Care of Savings With Budgeting

Let's face it—budgets are no fun! Many of us may have tried to budget in the past but gave up eventually. What most people hate about budgets is that they are restrictive—they are a reminder of what you can not have rather than what you can. However, this notion isn't always accurate. Sure, budgets will not allow you the most luxurious items on your bucket list, but they can be designed in a way that allows for an adequate space for you to breathe.

The most effective budgeting concept I have found is the 50/30/20 principle which allows you to take that abstract, "but you shouldn't be spending so much" advice in definite, concrete terms. Here, you divide your post-tax income according to the 50/30/20 guideline, which means that 50% of your income would go into *needs* such as buying groceries, rent, paying bills, and so on; 30% would go toward such things as movies, dining out, a Netflix subscription, a gym membership, etc., and 20% into *savings* and building that emergency fund we covered earlier. Like me, you can break these needs, wants, and savings categories into other smaller categories, which helps keep a more efficient check on where the money is going. For instance, my wants category includes subscriptions, entertainment, vacation, etc., to help me keep track.

You may use the envelope system to execute this budget. Here, you keep a separate envelope for the three main categories—needs, wants, and savings—and then smaller envelopes for the subcategories. At the beginning of your budgeting period, you assign a sum of money to each category and keep it in the respective envelopes. You then take the money out as and when needed for each category. Simple enough? Absolutely! But the only catch is, if you run out of money in, let's say, the

entertainment category, you cannot take the money out of your savings envelope. You must have the discipline to see it through to get effective results.

If you are more of an online transactions kind of a person, multiple apps such as *Goodbudget*, *Mvelopes*, *You Need A Budget (YNAB)*, and so on use the virtual envelope system. Although, I do suggest that you try it on your own for a couple of months or try the free versions before taking on any paid memberships.

Special Budgetary Considerations for a Real Estate Investor

In addition to the above, you also want to budget for real estate costs when considering investing in a property. Your debt-to-income ratio is an important number when doing this. Your debt-to-income ratio represents the amount of your monthly income that goes into debt payment, typically expressed as a percentage. The lower this percentage, the better. A lower number would indicate to the lender that you can fulfill your debt obligations completely and comfortably with your current paycheck. Lenders tend to prefer a DTI lower than 36%, with existing mortgage or rent payments not exceeding 28%. Therefore, a significant part of getting financially ready for investment is reviewing all your existing debt to determine where you stand regarding your DTI ratio.

Lastly, when planning an investment budget, you also want to be aware of all the closing costs. Many investors ignore these initially, paying attention only to the down payment and mortgage. While those two are the most significant, closing costs associated with purchasing a property can also be quite substantial, especially when you are not prepared for it. These may include:

- home inspection charges
- homeowners association fees
- homeowners insurance
- lender fees associated with the application, origination, credit checks, etc.
- title search fees

These usually add up to more or less 2.5% of the property's total price.

Improving Your Credit Score

Paying your debts on time seems like a straightforward way to improve your credit rating. However, a credit rating is more complex than that, and there are a few more intricacies that you might want to understand.

As you may recall, I spoke earlier of something known as the credit reports released annually by each of the three credit agencies. These credit reports are of paramount importance if you wish to mend your credit, as they give you the exact details regarding what is helping or hurting your credit in general. While most people might treat credit analysis as a yearly exercise, many are unaware they can do this every four months. The way to do this is by timing your credit report from each of the credit bureaus—Experian, TransUnion, and Equifax—in such a way that they are spread out over the year, each four months apart from the other. You want to check for errors in these reports, such as those highlighting late payments.

Credit rating is arrived at by considering multiple factors at differing weights as follows:

- payment history (35%)

- credit usage (30%)
- length of credit history (15%)
- new credit (10%)
- types of credit (10%)

As you can see, the first factors are the most significant determinants of your credit score. The first, i.e., the payment history, is the obvious timely payment aspect. The second factor is where it may get slightly tricky. Many people may wrongly assume that cutting up all their credit cards and never taking any credit will make their credit woes disappear. In reality, not using credit also tells the lender that you are not very good at making the most of it, thereby negatively impacting your score. Therefore, it is highly recommended that you use them in small manageable amounts rather than cutting up your cards and paying the balance in full by the end of each billing cycle. If not, keeping your outstanding balance to 30% or less of your available credit limit is best. Successfully managing your credit in this manner indicates that you can handle credit well and may therefore increase your score.

Insurance Details You Need to Keep in Mind

It is enough to send them running the other way, sometimes, if you talk about premiums, deductibles, coverage, and whatnot with regular folks. Now add to it the complexities that one would have to deal with as a real estate investor, and most simply take it on for the namesake without thinking much about it. However, this can be a much more expensive mistake for an investor. Remember that rental property insurance is usually costlier than that for owner-occupied residences. Therefore, it becomes crucial that you look out for certain aspects, even at the research stage.

Depending on factors such as the size of your portfolio, the location of your property, etc., you might want to look at different types of insurance, such as:

- liability insurance to protect you against accidents that happen on your property
- hazard and fire insurance to cover structural damage due to theft, fire, etc.
- flood insurance for water damage from floods or other external sources
- tenant rent default insurance to protect you against your tenants not paying monthly rent
- sewer and waterline backup to cover some clogging or breaking of the main plumbing line

These are just some of the many that you'll come across. As a landlord, you might be able to take the "landlord insurance," which bundles these and other relevant policies for you. This variety in policies and considerations may require you to seek help from an insurance broker to determine which ones are the most suitable for you. Remember the difference between a broker and an agent, though: While brokers give you all the options from all the insurance carriers, agents represent only one carrier. The former might allow you to make a more informed choice. At the end of the day, the idea is to protect your wealth and your property against as many contingencies as possible.

WHY IS THE MINDSET SO IMPORTANT?

We have gone into great detail about building the right mindset, and I am sure you are wondering why it's such a big deal. I assure you it is more than just an abstract "cautious approach." As a contemporary real estate investor, there are so many challenges that you need to watch out for, and the only way to safeguard yourself is to form the right attitude about investing. Real estate investors today face some very real difficulties; take a look at a few of these curveballs, and you will know what I mean:

- ***Creating an online brand:*** The days of offline property deals are long over. If you want to be relevant in today's market, then strengthening your online presence is the way to go. Make sure you have a professionally designed website that is aligned with your brand. Engaging with users through social media, be it Instagram, Facebook, Youtube, Twitter, or any other popular platforms, is guaranteed to fetch you some great benefits. Furthermore, you want to ensure that you are staying on top of technological and virtual advancements that your competitors might be using. An adaptive mindset is something you will thank yourself for in this crowded industry.
- ***Funding woes:*** Think about this—you have been scouring the neighborhood for months to find the right property and eventually find it. Once you do, you start looking for lenders who are willing to give you the best offer. But in a tremendously competitive market, the time you spend looking for lenders can

make or break a deal. Moreover, lenders can often go back on their loan quotes right before the deal goes through. In these circumstances, having a network of professionals around you, including lenders who can fill in, can be a great boon.

- ***Problematic evictions:*** In the current age, real estate investors—and landlords, more precisely—tend to face a dilemma. On the one hand, they are faced with low occupancy, while on the other, delinquent tenants pose a much more significant threat. These tenants may not only skip on rent but also damage the property. Sure, there are government assistance programs to help the landlord in these cases, but the truth is that most of them come so buried in red tape that it is hardly any help. The ability to persistently move past these difficulties is a mindset trait you focus on.
- ***Lack of income certainty:*** Income uncertainty is a challenge that has been around for a while, yet with the constantly evolving economic conditions, it has become more crucial than ever to address it. One of the prime goals of investing in real estate is improving cash flow and having your tenants bring it in. Therefore, thoroughly vetting them should be your top priority. Also, it might be highly beneficial for you in the long run if a protocol is implemented for taking on new tenants to cover everything from advertising the vacancy to monthly rent collection. The idea here is to make sure the place does not fall apart just because you have gone on vacation.

Remember that the list does not end here. Any turbulence in terms of geopolitical conditions, global pandemics, etc., has an

almost immediate impact on market volatility, and that can bring on a whole different pack of problem situations. As an investor, it is crucial that you do not go chasing a mirage in the desert. Rather than diving into volatile areas which can go either way, it is best to stick to the “slow and steady wins the race” adage and focus on stable projects with minimum risk. It is here that your mindset will make all the difference.

KEY TAKEAWAYS

Our discussion about mindset may seem like a lot of talk about intangible stuff. But a wrong perspective is so often at the root of people's real estate failure that this discussion cannot be skipped. Here are some important points for you to come back to:

- The attitudinal aspects of the right mindset are:

1. Don't wait too long to take on projects. Knowledge is essential, but the skills and intuition you develop on the job are invaluable.
2. Treat people as an asset and focus on building relationships. Use referrals to strengthen your network further.
3. In real estate investing, no day is like yesterday. If you are open to them, you will always find new experiences to learn from.
4. You cannot turn everything in your surroundings in your favor. Do not get hung up on the things you cannot change. Focus on the ones you can, and have the flexibility to adapt your plans.
5. Use the visualization tool to manifest your real estate dream into a reality. Be creative and find ways of making everything you want as real as possible. You may use vision boards, affirmations, or anything else that works for you.

- The financial aspects of the right mindset are:

1. Use the 50/30/20 rule of budgeting to ensure that you are saving in proportion to your income. Using the envelope system can make life easier.
2. As an investor, you want to keep your debt-to-income ratio within the 36% mark, with no more than 28% going into rent or mortgage. You also want to keep in mind other costs related to property purchase, such as closing costs, earnest deposits, etc.
3. Improve your credit score by evaluating your credit report, making timely debt payments, paying credit card bills in full each month, and utilizing your available credit in the best possible way.
4. As a real estate investor, you must pay special attention to your insurance coverage and ensure you are protected against liability, flood damage, fire, rent default, etc. An insurance broker might give you a wide range of plans offered by different carriers so that you can choose the best coverage.

3

LET'S DISCUSS THE ESSENTIALS

> *"Plan your work for today and every day, and then work your plan."*
>
> — MARGARET THATCHER

The mindset we discussed in the last chapter does not come about in a day. As I said before, you are always learning, and that molds your thinking every day in little ways. You have now taken the first step to successful investing by learning the basics of this mindset. Now, it is time to move on to the next step: planning your journey further.

Would you get on a train without knowing where you want to go? No, you would not. That is the same reason why investing in something without proper prior planning would be a bad idea: It is very easy to get lost if you do not know where you want to go. Of course, just because you have planned for something does not mean it will happen that way. A crucial part of planning that many miss out on is spontaneity. While plans act like personal milestones with which you can assess how far you have come, spontaneously adapting those plans determines how far you will go when circumstances change.

In this chapter, we will look at the different aspects of transforming your goals into well-laid plans. Remember that

we are still laying the groundwork before getting down and dirty with actual investing techniques in the next chapter.

REAL ESTATE INVESTING TIDBIT

A survey conducted by the National Association of Realtors in 2021 found that 42% of home buyers prefer to invest in real estate over stocks, and 83% believed it was an excellent investment in general. Those seem to be really good figures, don't they? Where do you stand?!

SOMEONE LIKE YOU

Jason Pabon is a buyer account executive who had no idea how to get started in real estate. He recalls spending endless hours reading books on real estate and investing, listening to good-quality podcasts, and, most importantly, networking with other investors online and offline. As a result, when the time was right, he was able to define exactly what he wanted his first project to be. He started with a capital of $20,000 and acquired a single-family rental unit. With a capitalization rate of 8.5% and a five-year return of over $9,000, he is now doing comfortably well. He recommends that beginner investors set reachable goals to instill accountability in themselves. That is the only way to keep the drive going.

SETTING YOUR INVESTMENT GOALS

Once you put budgeting into practice, you will have a much clearer understanding of how your finances work; this is a good starting point, but it is certainly not the ultimate destination. Once you get a good grip on your financial situation, it is time to start thinking about where you are headed. Just like how we discussed the importance of vision in real estate, you also need to have a vision for your financial career in general. Where do you see yourself five years from now? What kind of investments are you looking for? How much do you want to put into those investments, and when? You will need to answer these and many other similar questions in order to set effective goals. Even the questions you ask yourself will depend on the overall direction you wish to take in the coming years.

I find that the SMART goal framework tends to help me create goals and ensure that I am on track to achieving them:

- **S**pecific: A specific goal, one that is crystal-clear about *what* it is that you want to achieve. Take out a piece of paper and put the goal down with as many details and subgoals as you wish. Remember that it is all about painting the picture for your mind.
- **M**easurable: Goals are pointless if they have no way of being measured. Think about it—wanting to be rich will never be effective because it's neither specific about what it means to be rich nor measurable, as there are no measuring criteria for a vague term like "rich."

- **A**ttainable: While it is great to be optimistic, unrealistic positivity may do you more harm when it comes to goal-setting. Make sure your goals are realistic and attainable. For instance, if this is your first property deal, it might be slightly unrealistic to hope it will fetch you five million dollars in profits.
- **R**elevant: I can not stress this point enough. People often lose the plot simply because they try to follow through on goals someone else expects them to fulfill. Make sure your goals make sense to you, and, even more importantly, they bring you fulfillment. Only when the goals are relevant to you will you find the drive to keep going, even when things become challenging.
- **T**ime-bound: Lastly, ensure that the goals you set for yourself have a timeline attached to them. Be clear about *when* you want to have achieved that goal. Wanting to earn a million dollars is a great goal, but when? In a month, a year, five years, or by the time you retire? This timeline will determine if you are overestimating or undermining your potential.

You may have seen this framework in many resources but understand that it is popular because it works. So, go ahead, and before moving forward, put your pen to paper and create three goals you want to achieve by the end of one, five, and ten years each.

If your investment goals are like milestones, then your business plan is like the road map for your investing career. Without these, you will never know how far you have come or how much further you still have to go. A business plan is a document that outlines what your business is all about, a summary of the opportunities and threats, the projected costs, a detailed account of all its operations, and a detailed proposal for attaining its goals; this is the general template for a business plan. Let's see how we can apply this information to our real estate investment business.

Remember that no two business plans will ever be the same. The purpose here is to create one that suits you the best. Here are the essential elements that you need to outline in your business plan:

#1 Well-Defined Goals

You have already penned down the SMART goals we covered earlier. Now, let's see how we can break these goals down into short-term and long-term goals so that both are aligned with each other. After all, short-term goals need to blend into long-term goals for you to have a coherent vision. In fact, short-term goals tend to act as the smaller, more practical action steps that take you toward your long-term goals.

Now, let's say you want to purchase one single-family rental unit by the end of the year; this would be your long-term goal. Short-term goals that build up to this could be property hunting by visiting at least two or three for-sale properties each weekend, seeking out properties that are not on the market yet but still look a bit dinged up and might be up for

sale in the future, securing contacts of 15 landlords, to begin with, and so on.

#2 A Big-Picture Vision

Every business needs a vision. This vision not only gives direction to your investments but also tells people about your brand. What values do you follow? How do you want others to see your real estate business? What do you want them to feel about you? Lenders, employees, and tenants are all an essential part of your investments, and how they see you makes a huge difference.

Start by thinking about other businesses you relate to; they don't even have to be from real estate, per se. Think about what you value in these businesses. Be open to feedback from others. Ensure that your vision statement aligns with your overall business plan. Just remember that vision is not just about the words you put up on your websites but the qualities you would like to instill within your business and the traits you would like your business to be remembered by.

#3 A Detailed SWOT Analysis

SWOT is an acronym for strengths, weaknesses, opportunities, and threats. A SWOT analysis is the perfect way to objectively determine where you stand compared to your market competition. While strengths and weaknesses are your insights about your capabilities and potential that could be an advantage in the business, opportunities and threats are all about external circumstances, including your competitors and environmental challenges. It is crucial that you are brutally honest while doing this evaluation.

For instance, good tenants or a good property manager could be great strengths, and inadequate capital or a lack of reliable professionals in your network could be weaknesses that you

need to improve upon. On the other hand, the upcoming neighborhood in which your property is located could present a good opportunity, and the lower rent offered by other comparable properties could become a threat. This exercise is greatly beneficial because coming to an actionable solution becomes easier with the awareness that this SWOT analysis brings in. Go ahead, give it a try!

#4 Business Strategy

The business strategy unfolds in two parts—investments and marketing. As you will see in the next chapter, real estate offers a buffet of techniques you can use to invest. Depending on your available capital and long-term investment goals, you might decide you want to take up wholesaling, house-flipping, renting, and so on.

Of course, it is not the case that once you choose a strategy, you can't take up something else. Most investors choose to specialize in one for most of their projects—this gives them the advantage of carrying forward their momentum. In other words, it allows them to build more effective systems and experience what can be used from one project to the next. That being said, a successful investor always makes strategic decisions based on the property itself.

The second part of a business strategy manifests itself in the form of your marketing plan. Again, your brand, as a whole, can make a whole lot of difference here. How you choose to engage with and advertise your business to the masses is crucial, and lenders may even base their decisions on how well they believe your marketing efforts are etched out. After all, only if you attract people to your services can your business survive in the long run.

#5 Financial Report

The financial section of your business plan will provide details regarding your operational costs, cash flow, income statement, and balance sheet of profit and loss. As a beginner business, you should note the long-term and short-term objectives and projections for profits and losses here. It might be tempting to inflate these figures to impress, let's say, lenders. However, that is a bad idea. Falsely inflated numbers tend to signal either naivety or dishonesty, neither of which help your cause. Even internally, this is a valuable document because it allows you to measure the performance of your business in concrete, tangible terms. Therefore, even before you begin to invest, ensure you have a firm handle on keeping your documents organized—they will come in handy when you try to organize your business finances.

#6 Plan B

Perhaps the part many investors ignore and eventually pay dearly for is not having a Plan B; this is precisely what our elders meant when they said, "Hope for the best but prepare for the worst." While you must have conviction in your business, the fact remains that businesses go under every day. Moreover, your lender might be more interested in these worst-case scenarios than anything else. Therefore, it is essential that you have appropriate exit strategies for these. These exit strategies can see your business even through the worst of times, but only if they have been practically thought out.

All the aspects discussed above are like the ingredients needed to make the perfect dish. However, we all know that our favorite dishes are not just about the ingredients; they are also about how these ingredients are mixed *and* the effort put in. Now that you have the ingredients for a great business plan, it is up to you to make it perfect (or at least near perfect.)

First and foremost, you need to understand the purpose of your business plan. Is it for you and your team, prospective lenders, or future clients? Depending on the intended audience, the plan may need to be slightly tweaked. Don’t get me wrong; by tweaking, I do not mean changing facts and figures. I just mean that changing the language a little can be impactful.

For example, a business plan will begin with an introduction to you and your business. This introduction may need to be presented differently to different target audiences. Do this in a manner that shows your confidence in your knowledge and skill, as the audience needs to believe that you know what you are talking about. When presenting your business plan to people outside of the industry, be sure to avoid overwhelming them by using too much jargon. Rather, create case studies to show how deals will progress. Lastly, show your audience that you can evolve by updating your business plan regularly, be it because of changing market conditions or new insight from researching your competition. Ultimately, the business plan is just a tool to keep you on track for constant improvement.

So, now you have checked three boxes for real estate—the investing mindset, the SMART goals, and the business plan. But you are not done yet. The most important box is yet to be checked, and that box is your team of professionals. No matter how good you are in real estate, there is only so much you can do alone. The real estate market is extremely competitive, so it becomes crucial that you build your own community that you can rely on, even in the worst of times. This community will be your team through thick and thin.

These are not necessarily the people you have on your payroll, but they will show up when needed. When building a team, it is necessary to remember the most crucial principle of networking: Always ask what you can do for them before asking what they can do for you. In a team, growth and success are both two-way streets. You may not have a fully formed team right from day one, but if you network with the right people in the right manner, you can be sure that your community will grow, and so will your success.

A Team That Has Your Back

As a real estate investor, your network must spread across multiple disciplines. And that is why it becomes crucial to network and use referrals without keeping a score—you may not need them today, but you may need to call on their expertise tomorrow. Even though I list only a limited number of professionals in this section, I strongly encourage you to build connections beyond this specific list.

- ***Real estate agents:*** A real estate agent that understands your investment vision and is aligned with your working style is an invaluable asset. That being said, be sure to tap into the talents of multiple real estate agents. Just as you may pick your favorite niche, real estate agents also tend to have preferences regarding their work circles and properties. Multiple agents in your network may give you unique leads from various sectors. Furthermore, if you wish to sell a property, an agent may provide the added advantage of their exclusive ability to list the property on Multiple Listing Service (MLS), an online database of on-market deals.
- ***Real estate attorney:*** An attorney specializing in real estate is always good to have in your corner. They can help you draft legal documents, be they your lease agreements, eviction notices, etc., and can also protect you in the event of litigation. Moreover, a good attorney will try to ensure the matter is settled outside of court. Of course, keeping one on a retainer is likely too expensive, but hiring them for a flat fee may be well worth it.
- ***Lenders:*** Finding the right lenders with whom you want to build a long-term relationship is a daunting task, to say the least. But the more deals you make, the more you will start to prefer some over others. The key is building a trusting relationship that offers value to both parties, especially with hard money lenders. Also, remember that once the trust is built, you may get more than just money from these lenders —they might become a critical source of leads for your investments.

- ***CPA:*** Remember that a certified public accountant is different from a bookkeeper. While a bookkeeper ensures that all your data and accounts are in the right place, a CPA's task involves more tax advice and wealth-building. It is best to enlist the services of both a bookkeeper and a CPA.
- ***Property manager:*** Beginner rental property investors often face the dilemma of whether they should be the landlord themselves or hire a property manager. Of course, if you have the one property like I did initially, then doing it yourself would make complete sense. However, I look at real estate investing as a business, and any business is only as good as the systems that build it. If you are going to be in real estate for the long game, then you should take on a property manager when the time is right. They would handle daily operations like advertising vacancies, interviewing tenants, collecting rent, repair and maintenance, etc. This way, you can focus on expanding your business while your existing investment keeps growing.
- ***Home inspector:*** This professional can be a crucial part of the due diligence puzzle before you invest in a property. Real estate projects can be quite deceptive at times. Even when a property looks great, it is essential that a deep inspection is carried out to make sure that the core structure is sound. An experienced home inspector will be able to point out the flaws that may not be obvious, thereby preventing you from making a bad investment.
- ***Mortgage broker:*** If you are having difficulty connecting to lenders, then a mortgage broker can help a great deal. This professional is simply an

intermediary between lenders and borrowers and has no funds at stake in the deal. They try to negotiate the best possible deal based on the borrower's interest rate requirements and then earn a commission from either the lender, the borrower, or both.

- ***Property appraiser:*** An appraiser's job is to ensure the property is valued accurately without bias. While the seller may invariably ask for a higher price because of their various biases about the property, you, as an investor, must ensure that a fair price is agreed upon. Your property appraiser plays a valuable role in this transaction.
- ***Contractors:*** A real estate investor cannot function without a network of contractors. These contractors generally have teams that include plumbers, electricians, carpenters, and many other workers. They are the ones that bring your property vision to life, and hence a lot of your reputation depends on them. Shoddy work on their part can make your project an absolute headache. This is why it is a good idea to spend some time finding the right fit. While hiring these professionals, you also want to ensure they undertake work at discounted rates for investors. Working with contractors that primarily undertake residential projects at an elevated price may eat into your profit margins as an investor.
- ***Handymen:*** People often confuse contractors and handymen because they tend to do similar kinds of work. But the significant difference between the two is that contractors are licensed professionals while handymen are not; this means there is a substantial difference in their charges. Therefore, a handyman would do just fine if you need some basic plumbing

jobs done here and there. However, if you need to, let's say, replace the HVAC system, then a contractor is your best bet.

- ***Accountability partner:*** Though I bring this up at the end of the list, know that this is the most crucial team member; this may be your spouse or significant other, or if you are not romantically involved, then a friend or a mentor who keeps you on track. Remember that none of the other team members may question your decisions or, at times, point out that your logic seems a little skewed. However, this person can do that without fear of retribution. If your spouse is in the picture, then it is paramount that you are both on the same page regarding the financial decisions you make; this is your true partner-in-crime who pulls you up when things get difficult and gives you a reality check when your investment mindset becomes clouded.

Assembling this team is easier said than done. Unfortunately, finding good professionals is more challenging than it sounds. So, chances are high that you might occasionally run into some bad apples. But do not be disappointed. Make sure you learn your lessons from those bad interactions and move on to finding someone who fits well with you. Remember that finding a good fit is not only about good skills and experience but also about their personality. A contractor, for instance, may be excellent at their job but may be highly unreliable and frequently late. You obviously would not want to run behind someone to get your work done, no matter how great they are at it. The key is to focus on building a cohesive unit with these professionals, even though you may not interact with them on

a daily basis. With this team in place, you can be sure that success is coming your way.

A FEW RESOURCES TO GET YOU STARTED

Today, there is plenty of resources on any topic you wish for. The internet has changed the game by making so much information available at your fingertips. The only challenge is to parse through and focus on authentic sources. Here are a few to help you get started:

Books

1. *The Book on Rental Property Investing* by Brandon Turner
2. *How to Invest in Real Estate* by Joshua Dorkin and Brandon Turner
3. *The Millionaire Real Estate Investo*r by Gary Keller
4. *What Every Real Estate Investor Needs to Know About Cash Flow* by Frank Gallinelli
5. *Crushing It in Apartments and Commercial Real Estate* by Brian Murray

Websites

1. Roofstock Marketplace is an online marketplace where investors can invest in single-family rental homes.
2. Fortune Builders is an excellent source for real estate education with an informative blog and investor training programs.
3. BiggerPockets is also an educational platform with great discussion forums, podcasts, and published books.

4. Millionacres is an educational platform with different training levels for beginner and advanced real estate investors.
5. For Sale By Owner (FSBO) is a real estate platform that allows investors to purchase properties directly from sellers; this way, they don't have to deal with property wholesalers.

Apps

1. Zillow is one of the most popular real estate platforms to find on-market deals.
2. Rentometer is an app that helps you run comparable properties (popularly called comps) in the neighborhood to determine the average market rent.
3. Deal Machine is an app for finding properties that others rarely know about, so the competition is low.
4. Stessa is a property management app that can be used for all kinds of rental properties and even provides personalized tax resources.
5. PayYourRent is an online platform for seamless rent collection.

These are only some of the resources I have discovered and found helpful over the years. You may find many others better suited to your needs. The point is the more you stay open, the more you will find that technology can make your life easier—so don't be afraid to use it.

KEY TAKEAWAYS

Before getting into some real estate action, here are a few points for you to review:

- Make sure your goals are SMART, i.e., specific, measurable, achievable, relevant, and time-bound.
- Write a business plan including the following aspects:

1. Executive summary or introduction to your real estate business
2. Long-term and short-term goals
3. Strengths, weaknesses, opportunities, and threats (SWOT) analysis
4. Investment and marketing strategy
5. Financial details pertaining to the business
6. Exit strategies

- Build a team with the right professionals:

1. Real estate agents
2. Real estate attorney
3. Lenders
4. CPA
5. Property Manager
6. Home inspector
7. Mortgage broker
8. Property appraiser
9. Contractors
10. Handymen
11. Accountability partner

4

TYPES OF REAL ESTATE INVESTING

> *"Strategy is figuring out what not to do."*
>
> — STEVE JOBS

If you have ever tried to get any financial advice, you know there are many that will boast about using only one investment strategy, as if that is the only one that works. A stocks advocate will tell you they are the only way to make money, and a mutual funds follower will say they are the best because they are the safest. Even some real estate enthusiasts will tell you that the only way to make money in real estate is the way they prefer.

This kind of thinking is not just restrictive but also misguided. Consider this—let's say you want to go from New York to Delaware. Would it be accurate if I told you your only option is the train? No, it would not. Sure, train travel is one of the options, but maybe you want to take a plane or bus, or perhaps you prefer to drive. The point is that the investing strategy that works for you depends entirely on your needs and life circumstances.

The reason that I find real estate investing so charming is that even within itself, it offers so many paths that investors can take to their desired destination. Which approach you end up

choosing is entirely up to you. Moreover, it also provides the flexibility to choose multiple paths and even switch to a new one whenever you feel the need. In this chapter, you will learn about several strategies that a real estate investor can opt for, complete with the pros and cons of each. Of course, each of these strategies could be its own book. But my main aim here is to give you a brief overview of each of these strategies so that you can pick the ones you feel the most comfortable with and do more detailed research on them.

REAL ESTATE INVESTING TIDBIT

Real estate investing is not just about rental properties and landlording. Did you know that the average gross profit earned by investors using the house-flipping strategy in 2022 was almost $62,000 (Statista Research Department, 2023)? Not the house-flipping kind? Well, maybe REITs are more your speed. Did you know that in 2021, REIT investors in the US received a total dividend payout of $92.3 billion (Nareit, 2022)? You can be one of them too!

SOMEONE LIKE YOU

For a long time, like most people, Andre Albritton believed that he needed tons of money to invest in real estate. Therefore, he kept putting it off until he noticed something strange. While working in his finance firm, he discovered that many of his high-net-worth clients did not have multiple properties in their name; this was back when the general wisdom was still believed to be that: If you have the money, you have to buy real estate. Something just didn't feel right to Andre, so he decided to investigate further. That is when he found that even though they did not have many properties, they were still very much invested in real estate. Enter REITs. Andre went right ahead and bought a REIT with just $400. He admits it was not a good investment because he chose the REIT quickly without doing the proper research. But even today, he marvels at how REITs are simplifying real estate for millions across the country. He recommends this strategy, especially to those skeptical of jumping from stocks as their primary investment to real estate. He says REITs make for the perfect transition because they are, after all, just real estate stock!

As a real estate investor, you have two main choices to make when you begin investing in projects— the first is the kind of real estate you want to invest in, and the second is the strategy you want to implement when you make that investment. For instance, you may choose residential, commercial, or industrial investing. You may even decide to invest in land plots rather than a property with a building structure. However, the direction you choose to go in will be based on factors like the amount of capital you have available, the location in which you are planning to invest, etc.

Since commercial and industrial real estate requires much bigger capital and tends to be much riskier, we will focus on residential real estate here. When it comes to investing strategies for residential real estate, there are five common ones most investors use.

Rental Properties

Rental property investing is also known as the buy-and-hold strategy for obvious reasons. The best thing about this is that it gives you the best of both worlds—while you can significantly improve your cash flow with the rent in the short term, your property as an asset also appreciates in value in the long run. Remember that the strategy is not called buy and forget—that means that the investor typically intends to sell it off at some point in the future but not before the property has yielded significant profits. And if you remember our earlier discussion, when they do sell, they can do it with the 1031 exchange to avoid paying taxes on their capital gains from the sale. Because of these reasons, rental property investing is

almost synonymous with real estate investing for many investors.

All that being said, you cannot make the decision to invest in rental properties on a whim. Some serious number crunching and due diligence must go into this decision for it to be counted as a successful investment. If cash flow and appreciation are what will help you in building wealth in this investing, then it is only logical that you pay the most attention to these two when analyzing a rental property.

1. Cash flow: In the most basic terms, cash flow has two aspects—income and spending. Your income is the rent, which depends on several factors like location, size of the rental unit, amenities provided, and the number of bedrooms and bathrooms. You cannot decide the rent for a property randomly. In fact, for you to have any chance of survival in the competitive market, you must determine what the fair market rent is currently. Using the Rentometer app I mentioned in the last chapter can help you determine what the rent should be. Also, being vigilant and open to your surroundings can prove greatly useful. For instance, scanning the classifieds, checking out your competitors' websites, talking to other investors in the area, etc., can give you a lot of information that no apps can.

Determining the expense section of cash flow can be more complicated. Beginners may wrongly assume that the only expense they incur is the mortgage and therefore bungle up the whole cash flow calculation. While they seem to have a positive cash flow, the money they are left with does not support this; this is because they have not paid attention to multiple other expenses like insurance, taxes, maintenance and repair, cleaning, property management, vacancies, and so on.

It is essential that you calculate all of these in detail before determining cash flow.

2. Appreciation: Several factors impact the increase in the value of the property. The most important ones tend to be:

- ***Location:*** Is it an urban or rural property? Is the neighborhood all fancy with little scope for development? Is your geographical location more prone to natural disasters? The answers to all of these questions have a substantial impact on whether the property can appreciate and by how much.
- ***Demand and supply for rental units:*** If the demand for properties is higher than the number of available properties, it is a seller's market, meaning the property's value is bound to go up. The opposite is true in the case of a buyer's market.
- ***Infrastructural development in the area:*** This is one of the most significant aspects leading to appreciation. Indicators like connectivity and transport, setting up of new businesses, schools, hospitals, etc., tell you that development is on its way. Properties situated in such areas can experience a sudden boom.

Of course, other factors like economic conditions and government policies regarding interest rates determine whether the market and, consequently, the property value will rise or decline. But these factors are out of your control and can only really be taken into account once and if they are already in motion.

The above two elements must be considered when deciding whether a rental property is the right investment. The most

common mistake people make is that they tend to focus all their energy on finding the property with the right price. While some properties may be available for cheap rates, they are not necessarily good rental properties. For instance, you can find a property for a reasonable price in a dangerous neighborhood with high crime rates. But finding good quality tenants in a place like this could be next to impossible, making your investment more of a headache than an asset.

Pros and Cons of Investing in Rentals

No matter which strategy you choose, you can be sure that it will come with its own set of pros and cons. Rental properties are no different. We already spoke of the two most significant advantages of investing in rental real estate—recurring and consistent cash flow and gradual appreciation. We also touched upon the 1031 exchange tax benefits but remember that is not the only tax benefit you will receive. You will be eligible for multiple tax deductions under deductible operating expenses, depreciation deductions, owner expense deductions, etc. Technically, most of the merits of investing in real estate that we discussed earlier would also apply to rental properties, such as beating inflation, passive income, and so on. However, one pro of rental properties that I absolutely love is the high ROI or return on investment that rentals offer.

Return on investment is a straightforward ratio of how much profit an investment earns for you to its cost. Let's look at an example: Say I buy a property for $200,000 and hold it for 20 years. In these 20 years, if this property generates a yearly net operating income (NOI) of, say, $12,000, it will mean that a total of $240,000 is generated over the entire holding period. If the property generates $350,000 in sales, then the ROI at the end of 20 years would be:

ROI = (Gain on investment – Cost of investment) / Cost of Investment

= [(350,000 + 240,000) – 200,000] / 200,000

= 1.95 OR 195%

Now, remember that for the purpose of our discussion, I have simplified the transaction and have thus not considered factors like closing costs or monthly expenses separately. However, you will agree that those are some fantastic returns, wouldn't you?! Rental properties give you the opportunity to reap these ROI benefits to the fullest.

However, as awesome as they sound, they also come with their own limitations. For starters, property management is not everyone's cup of tea. If you plan to be a landlord yourself, you will need to learn a diverse set of skills, starting with being immaculate with your document organization and going all the way to chasing down tenants for rent collection. Of course, you can hire property management companies or individual managers, but their fees might be a hurdle, especially in the beginning. And regardless of who you hire, supervising everything still remains your responsibility.

Another reason that creates hesitation among new investors regarding this strategy is that it ties down their capital. It is not a liquid investment, meaning you can not simply cash it out when needed. Even in extreme circumstances, if you decide to sell the property, you'd have to assess the market situation to ensure you don't incur losses. Markets can be tricky as they are constantly going through cycles of expansion and recession. Understanding these cycles is undoubtedly critical to making sound investments. Still, the fact remains that this understanding may not do you much good if you decide to sell due to some unavoidable emergency. No matter how much I or

anyone else says they love rentals, you must weigh the pros and cons to determine what works for you.

House-Flipping

House-Flipping has always been a catchy term in real estate. It simply refers to the strategy where an investor purchases a property, fixes it up, and sells it for a profit. Investors usually do this in one of two ways:

- ***Wholesaling:*** This buy low and sell high strategy is where the investor scours the market for a suitable property that can be resold at a higher value in exactly the same condition.
- ***Rehabbing:*** Here, the investor buys a property that may seem like it is in ruins. They then unleash their great renovation skills on this property to add value, after which it can be sold for a higher price.

Of course, there are many other ways of flipping houses, but these are the most common. They both sound simple enough, don’t they? Well, there is nothing simple about house-flipping, and it is crucial to keep certain things in mind, especially as a beginner investor. In a nutshell, you must answer four critical questions to find the winning deal:

What

The kind of property you acquire is the most critical. If you aim to flip houses, you cannot be hunting for retail properties and expect to make profits. Retail properties are the ones that are in reasonably good condition, which makes them a good deal for homeowners rather than investors. They can directly move into the property, after all.

As a house-flipper, you should be looking at what are known as distressed properties. These may be distressed because of several reasons, such as the bad condition that the property is in, financial troubles related to the property, like the owner's inability to make mortgage payments, or even the owner's personal reasons, like a death in the family, relocation, divorce, or simply a fed-up landlord who is looking for a cash payout. Looking for these properties may feel like you're leveraging someone else's troubles, but the fact is if the owner is not desperate to sell, then there is very little leeway left for you as a flipper.

Even with distressed properties, you want to screen them for certain traits:

- ***Age of the property:*** While the property does not have to be recent, older properties may come with extensive damage that might not always be visible. Things like electric wiring and rusty plumbing that desperately need to be replaced can completely shatter your flipping budget to pieces.
- ***Layout:*** Does the property have a basement? How many bedrooms and bathrooms does it have, and how are they located within the house? These and many other questions like these need to be clarified before you decide to flip a house. It is also essential that you pay attention to other properties around the neighborhood to determine what kind of homes are being preferred by the buyers.
- ***Size:*** Again, the best property size to invest in depends on the demographic you are catering to. For instance, if it is a single-family home for young couples with families in the suburbs, a big yard may

be a huge plus, while single tenants in the city may prefer private spaces with the least amount of maintenance.

- ***Amount of rehabbing required:*** Another aspect you must account for and approximate is the extent of the renovations needed to fix up the property. While some properties may only require what is often called a "cosmetic" makeover such as a paint job, changing of fixtures, replacement of doors and carpets, etc., others might require a much deeper "mechanical" rehab like mold treatment, replacing plumbing and electrical lines, resolving issues with the foundation, and so on.

Where

Regardless of the strategy you choose, the property's location will always be at the top of your priority list. It is recommended that you invest in an area around your residence. The simple logic is that since you have known the neighborhood for years, you are more familiar with the strengths and weaknesses of the area. Also, physical proximity might be an advantage when supervising the rehab in progress—you can just drive down the street to see how it is going and get things done more effectively.

However, investing in your hometown also carries the significant drawback that your perceptions may be biased, both in terms of the positives of the property and the negatives. If you consciously watch out for this bias, then your knowledge of the area can prove insightful. For instance, you might have a much better handle on the parts of your neighborhood that are up and coming and those that are starting to feel a bit run down.

The best way to eliminate this bias—or at least reduce it—is to use objective data rather than your gut feeling to reach conclusions. For example, you might want to look at how long it takes for the houses on the market to be sold. The longer this time period, the lesser the demand and the farther away you want to stay from these neighborhoods. Other market trends indicate whether or not you should invest in a particular location—the crime rate, population growth, increase or decrease in employment opportunities, etc. You may find that even with low crime, a growing population, and good employment opportunities, it might still not be a great fit because of the general overbuilding and saturation of real estate in the area. Sticking to growing locations rather than saturated markets is better as a rule of thumb.

You should also check whether other investors are working in that area. Of course, a lack of competitors may not always be a negative indicator—it might just be that the investors have not yet discovered the potential of the area you are looking at. Having said that, looking at all of these in relation to each other and as part of the big picture is necessary to arrive at an unbiased decision.

From Whom

As a house flipper, who you purchase the property from also makes a big difference. The truth is that there are many different sellers you will come across in real estate, each with their own set of advantages and disadvantages:

- ***Homeowners:*** These are mostly the distressed sellers who usually want to close the deals as quickly as possible.
- ***Landlords:*** These investors may be looking to sell because they want to do something other than

property management.

- ***Short-sale property sellers:*** A short-sale property is where the owner owes more in their mortgage than the worth of their property. So, the owner is highly motivated to find a buyer to avoid a foreclosure of the property, which has a much more negative connotation for their credit score.
- ***Foreclosure auctions:*** When the owner repeatedly falls back on their mortgage payments, the lender may seize the property and sell it to retrieve the remaining debt.
- ***Bank-owned foreclosures:*** Also known as real estate-owned (REO) properties, these are foreclosed properties that did not sell at the foreclosure auction.

Even though I have outlined these distinctions, remember that there is no such thing as the best kind of seller. As with everything else in real estate, you need to determine which would be the most suitable for you based on certain aspects like the amount of time you can spend on the deal, your location, which may predominantly have a certain kind of sellers, and maybe even the aspects of your own personality, such as if are you a people person who is tactful with face-to-face dealings or not.

How

The last aspect of how your house-flipping turns out will depend on how you go about finding that perfect deal. There are many ways you can approach this step. It is crucial that you do not box yourself into just one of these but stay open to learning as much about each of them as possible because they might become the factor that distinguishes you from the competition. These may include:

- MLS
- websites like Auction.com or Hubzu.com
- direct mail marketing campaigns
- cold-calling prospective sellers

Or, you could drive around the neighborhood to look for properties that might need fixing up and then contact the owners. Most of the time, the ones that are not well-kept might be the ones that go up on the market even if they are not currently there. The idea is to gain access to as many sellers as possible. Remember that at the end of the day, it is all a numbers game—if you approach 10 sellers, you might find one deal that works out.

Pros and Cons of House-Flipping

The most obvious advantage of house-flipping is that it earns the investor some quick profits. Time is of the essence in this strategy. While expert flippers can complete a flip within three to six months, as a newbie, this timeline may stretch up to even a year. Remember that the longer you take, the more your profits are being eaten into. But if you can finish it quickly, you might be in for a solid quick buck.

Another positive about house-flipping is that it allows you to start building a great network. While the real estate team we spoke of earlier is essential to all strategies, you will find that you create this team much more efficiently when flipping houses. You quickly learn which contractors are worth their salt and which property inspectors can be relied upon. The tight timeline you are working with also means you will learn about the intricacies of real estate interactions much quicker.

As a house-flipper, you also catch on faster to crucial insights about buyers' needs and the market in general. Of course, the

lessons come only after you put your first flip up for sale. But do not underestimate the lessons that can happen throughout the process either. I know house flippers who went in as complete novices and came out at the other end of their flips as experts in zoning laws and permits, quality and prices of construction materials, and so on.

Sure, house-flipping is an excellent strategy, but it is not all rainbows and roses. It comes with serious disadvantages, too, that a new investor might want to look at. First of all, Uncle Sam is not very kind to house flippers—first of all, they have to pay taxes on the profits they make up front, which does not work out all too well for wealth-building.

The next obvious pitfall is the holding costs—the longer the property remains unsold, the more it costs you. In theory, rehab may seem like a straightforward task, but in reality, this is far from the truth. Supervising contractors and their teams and making sure they complete the rehab on time is in itself a daunting feat. Even after the rehab is completed, the longer the property remains on the market, the longer you will be required to take care of property expenses like the mortgage, taxes, insurance, etc. None of this does your profit margins any favors. Add to that the psychological stress of this ticking time bomb, and many new investors curse the day they chose to flip houses. Do not misunderstand me; I am not saying this to discourage you from this strategy at all. On the contrary, I have realized that the more prepared you are for the pitfalls, the greater your success will be, no matter the strategy.

BRRRR

No, that is not a noise one would make when it gets too cold—well, at least not in our context here. However, even though not cold, many investors consider this strategy the cool way

toward wealth. BRRRR is an acronym for Buy, Rehab, Rent, Refinance, and Repeat. The ones who employ this method of investing often say that it is the best for getting the most out of your capital. This method essentially combines core real estate investing techniques to give you an even better ROI than other strategies.

The BRRRR method is quite similar to the traditional strategy of rental properties, except for one major distinction that makes all the difference. Typically, the investor would take out a traditional mortgage to purchase the deal. But in the BRRRR method, this process looks very different. The success of this strategy depends upon you buying a distressed property at a value that is much lesser than the market value. You would then rehab the property, much like in house-flipping, to add as much value as possible. But instead of selling it after the rehab, you will rent it out and then refinance it to gain capital to repeat the same process with your next investment. Let's break down the process and look at each step individually:

- ***Buy:*** In most cases, the properties that qualify for a less-than-market-value purchase in this strategy may not be in the condition needed to fetch you traditional financing. Before giving you the loan, the lender usually appraises the property to ensure that it is a viable asset. If you default on the loan, they can then seize the property and get back the money they put into the deal. Even the loan amount is based upon the value determined by the appraiser— somewhere between 60–75% of the value. Therefore, it would be pointless to get a property appraised when it is currently in bad condition because, in all probability, it will not even meet your lender's requirements.

Therefore, the trick is to buy for as low as possible. BRRRR investors follow two critical rules of thumb to ensure they buy lower than the market value—the 1% rule and the 75% rule. The 1% rule is simple—the property must rent out for 1% of the price you pay for it to have a positive cash flow. So, if I purchase one for $100,000, it must fetch me the rent of $1,000. This principle gets tossed out of the window when the price you pay rises. For example, if I pay $500,000 for a property, it is doubtful that it would fetch me $5,000 in rent.

The 75% rule, however, states that the amount you spend on acquiring and rehabbing the property cannot exceed 75% of its after-repair value (ARV). Some have a more conservative view of this rule and follow the 70% guideline rather than the 75%. Either way, if a property's ARV is $100,000, then you should not spend more than $70–75,000 on it. To determine the ARV, you will need to look at other comparable properties in the neighborhood that have been sold not more than three months prior; this will take into consideration the factors we discussed earlier, like property age, location, size, etc. Determining ARV and following these guidelines may seem simple on paper but may prove tricky in reality.

- ***Rehab:*** At this stage, the sole aim is to increase the value as much as possible; this is done by making sure the property follows safety codes and is visually appealing. Getting your team of contractors to focus on specific aspects of construction might help in this regard. For instance, making sure that the roof does not leak and even adding a new roof, if you have to, can significantly bump up your ARV. For the interiors, you want to ensure there is no drywall damage. And even though, for a rehabber, this may

well be a small cost, it is a significant opportunity to increase your ARV from the lender's perspective.

Increasing what is known as the curb appeal of the property, i.e., the property's attractiveness to a passerby on the street, is also extremely effective. The fact that it doesn't take much effort is the cherry on top for investors. For example, some quick landscaping and a fresh layer of paint can get the job done. You may even consider updating the kitchen and bathrooms to give them a sleek and modern look; this may be as easy as replacing the fixtures and adding modular kitchen cabinets with a contemporary color theme. If the property has big rooms, you can think about skillfully adding a wall to create two rooms, which can significantly increase the property's value.

Now, let's say you have found the perfect property that follows all the rules. You still have to pay to seal the deal, and this is the step that concerns most of the new investors because they do not know what the next step is. In the absence of traditional financing, your best bet is leveraging *other people's money*, popularly referred to as OPM. Many investors feel trapped because they put all their savings into the deal. Though all-cash means you can beat a lot of the competition, it is also risky.

However, OPM in the form of private money you borrow from friends and family or hard money from hard money lenders can make life easier for you. While the repayment terms may be lax and forgiving in the former case, you might have to pay substantial interest rates for the latter. But either way, the money you acquire will help you move to other stages of the process as quickly as possible.

- ***Rent:*** Now that you have completed the rehab like a pro, it is time to get some money flowing in; this is the phase where the property actually starts bringing in some money. All the numbers you have run up until now are ready to be put into practice. A big part of whether the numbers will hold depends on the tenants you get. Therefore, screening and selecting high-quality tenants is a top priority in this stage of the process.

The rent you charge will determine the eventual cash flow of the property. You need to ensure that, while being competitive with other comparable properties, this rent also covers the debt installments you need to pay, the monthly expenses, and hopefully also gives you a little something for your troubles; this ensures that you are not pressed for money and are not making any desperate decisions to keep the investment afloat.

- ***Refinance:*** Once you have a solid rent system in place, it is time to move to refinancing. Remember that with an established cash flow, you have proven to the lender that this is a valuable asset, and you have also been making your mortgage payments, thus increasing your equity in the property. After some time passes and your equity exceeds the amount you owe in the mortgage, you can borrow against this equity with cash-out refinancing; this essentially allows you to borrow a larger sum than what is owed. You can then use this money to pay off the remaining loan and use the extra funds for further investment.

When doing this, you need to be aware of the seasoning period requirements of your lender; this means that you need to own

the rental property for a certain amount of time before you qualify for refinancing. This requirement changes from lender to lender, and it is thus crucial that you discuss this in detail beforehand. Also, note that not all lenders will offer you the best refinancing options; some may even refuse to refinance single-family rentals. It is here that your network of professionals will come in handy to find you the best possible fit with a lender.

- ***Repeat:*** With the cash-out refinance, you now have the capital to acquire another distressed property and follow the same steps again. The whole purpose of BRRRR is to help investors build profitable portfolios while not keeping their capital tied down in a single property. You will undoubtedly experience difficulties and make mistakes at the beginning of this strategy, but once you set up effective systems, this can give you massive returns.

Pros and Cons of BRRRR Investing

You will find that the pros and cons of BRRRR are often tied to each other rather than being separate points altogether. So, it will make more sense to discuss these together.

The best part about BRRRR is that it allows the investor to pull back the capital they put in through the refinancing step. Of course, there is a catch here that may also be seen as a con —most lenders refinance only up to 75% or so of the ARV. So, for the deal to be truly beneficial, the price you pay has to be significantly lower than the ARV. But, if you have done effective number crunching in the beginning, this strategy can help you scale your real estate business at an incredible pace.

Another aspect that is both an advantage as well as a disadvantage has to do with leveraging OPM. Of course, on the one hand, it allows you to acquire and rehab property with the least amount of money from your own pocket. In fact, most hard money lenders tend to give loans for almost 90% of the purchase amount and 100% of the rehab costs. However, these loans come at pretty steep interest rates and rigid repayment schedules. Moreover, the costs for each new rehab phase have to be borne initially by the investor and reimbursed by the lender only later on; this means that slight miscalculations and deviations in your rehab timeline may cost you dearly.

The BRRRR strategy also makes the investor vulnerable because a lot of it is based on the estimation of appraisal value. The whole strategy will collapse if the property is not appraised at a high enough value. With these pros and cons in mind, you now have a much clearer view of the BRRRR path and can decide whether it is meant for you or not.

REIGs and REITs

Up until now, we have discussed hands-on real estate investments—the ones where you have to get in deep and get your hands dirty. Many beginners may not feel quite up to doing that right away. If you are one of these and just want to test the waters before diving in or simply want to invest in real estate on the side, then REIGs and REITs are for you.

REIGs

Real estate investment groups (REIGS) are, essentially, business groups comprising private shareholders who engage in real estate activities to earn profits. They usually have a multitude of real estate investments in their portfolio and are not typically limited to specific niches.

For instance, they are commonly known to acquire multifamily properties and then sell these units to willing investors. The investor, however, has no responsibilities as such, and the REIG takes care of the property's daily operations and maintenance. Investors can do as they please with the property; most choose to rent it out and earn a passive income. The REIG also receives compensation for its property management, and it's a win-win for both; this is not the only channel through which REIGs earn profits, however. They may also take up house-flipping, lending capital, leasing commercial properties, etc.

The REIGs are not regulated by the Securities and Exchange Commission, which makes the laws for assets and securities markets; this often means that they enjoy quite a bit of variation in how they are structured. You will find that REIGs are often led by a board of members with certain people who assume leadership positions and active participation, while others simply invest their money. However, since they are not a taxable corporation per se, they may be a group of individuals who band together to pool their resources and determine which investments would be best for them.

Pros and Cons of REIGs

The most significant advantage of REIGs is that they allow investors to pool their resources to make larger investments. Therefore, a regular investor will not need to accumulate an enormous amount of money to be able to invest in commercial real estate, for example. Since they also have very few restrictions to abide by, they can invest in a wide variety of real estate ventures, giving them the advantage of truly diversified real estate portfolios. Investors also benefit from a give-and-take of ideas and perspectives when investing. Of course, this can quickly become a disadvantage, too, if there

are constant clashes regarding the investments to make. But in general, since the REIGs have mostly like-minded investors, discussions and brainstorming sessions usually prove quite useful even when there are disagreements.

On the downside, assessing whether a group is sufficiently experienced and skilled to make a successful investment is often difficult. In the absence of regulation, it is often a gamble if the investor does not know much about the background of the members of REIGs. Also, investment in REIGs is often illiquid—the members often sign an agreement restricting when and how the profits can be accessed. Furthermore, the fees you must pay to become a REIG investor can dilute your profits to quite an extent.

REITs

Real estate investment trusts (REITs) are often wrongly assumed to be the same as REIGs. Sure, they have many similarities, but they are certainly not the same. The major difference is the way they are structured. REITs are formally structured taxable corporations regulated by the SEC. Unlike REIGs, they are required to distribute 90% of their taxable profits among shareholders in the form of dividends. The aspect that makes them especially amiable to new investors is that they are traded like stocks on major stock exchanges and can be purchased even with limited funds.

Of course, only some real estate companies that own income-generating properties are considered to be REITs; they must fulfill some stringent requirements to be considered one. For instance,

- At least 75% of its financials must be rooted in real estate. That means it must derive at least 75% of its

income through real estate activities like renting, financing, or selling properties. It must also have 75% of its assets in either real estate, cash, or US Treasuries.

- It must meet the yearly 90% dividend requirement mentioned above.
- It must have at least 100 shareholders after the first year of its establishment and must be managed by a board of trustees. It is also mandated that no more than 50% of the total shares be owned by five members or fewer.

Like REIGs, REITs also engage in either renting, financing, or selling real estate. Those that are involved primarily in renting are called equity REITs, while those that earn their income primarily through lending mortgages are known as mortgage REITs. The latter are particularly sensitive to fluctuations in the interest rates as proposed by the government. Apart from these, there are also hybrid REITs that blend both equity and mortgage strategies to earn revenue.

Pros and Cons of REITs

As a result of being regulated by the SEC, REITs offer a transparent way to diversify your investments. They are highly liquid and ensure a stable revenue through dividend payout. However, the disadvantage is that as this payout is not eligible for any tax breaks, your return might be impacted in the long run. Also, since these are real estate stocks, they are often vulnerable to market volatility, just as stocks would be. Lastly, potentially high management fees, along with the limited growth offered by these, can divert investors to look for more profitable options. But remember that REITs allow investors to kick-start their real estate journey with relatively much lesser

capital while avoiding the hassles of property management. As a new investor, this is worth considering.

KEY TAKEAWAYS

Even though we have briefly discussed the strategies, the amount of information in this chapter can be quite overwhelming. My suggestion is this: Do not try to learn it all at once. As I mentioned before, this is not something I learned in one sitting. So, do not force yourself to try and grasp it all right away.

That being said, I also want you to remember that gaining at least a basic understanding of these strategies is essential because they are closely interlinked with the methods of raising capital which we will discuss in the next part of this book. The way you go about raising capital for each strategy will likely vary. Check out these highlights to make reviewing these strategies easier:

- When investing in rental real estate, it is essential to accurately analyze two factors: cash flow and appreciation. A positive cash flow is when your income is more than your spending. While rent determines income, spending has multiple factors like mortgage payment, insurance, capital expenditures, repairs, cleaning and maintenance charges, etc. On the other hand, appreciation depends on factors like location, crime rates, employment opportunities, etc.
- House-flipping, as a strategy, focuses on buying distressed properties, rehabbing them, and reselling them for a profit. Effective rehabbing requires that you have a strong team of contractors to wrap it up as soon as possible. The major drawback of this strategy is that it's extremely time-sensitive, which means that

if you cannot sell it immediately after the rehab, your holding costs can even exceed your profits.

- BRRRR refers to Buy, Rehab, Rent, Refinance, and Repeat. The primary aspect that distinguishes this from traditional real estate investment models is that the first property is purchased substantially under the market value by leveraging other people's money (OPM). The investor has to ensure that no more than 70–75% of the after-repair value is used to acquire and rehab the property. Value is added to the property with a remodel and then rented out. Once a solid positive cash flow is created with the incoming rent, a cash refinance is taken on the property. This cash is then used to repeat the same business model with another distressed property.
- REIGs and REITs are real estate companies that allow investors to pool their money for investments. While REIGs are more informal with no regulations, REITs are taxable corporations that are required to distribute at least 90% of their yearly profits in the form of dividends.

Spread the Dream!

> *"There is no passion to be found playing small – in settling for a life that is less than the one you are capable of living."*
>
> — *NELSON MANDELA*

Everyone dreams of financial freedom… but only a handful of people make it happen. Why? Because they don't know what they need to do to get there. Not only that, but not enough people are aware of the potential of real estate investing as a means to a comfortable way of life and an escape from the drudgery of the 9-5.

My goal is to change that.

I've seen real results from real estate investing, and you only need to look at the celebrity world to see that it's a big contributing factor in the wealth of several big names.

We don't need celebrity status to achieve that dream of financial freedom, and the more people can access it, the more people will have access to a better life.

It's for this reason that I want to ask for your help in getting the word out. I know your brain's already buzzing with a thousand ideas about your investment opportunities, but I promise this will take neither a lot of time nor a lot of brain power. All it takes is a few minutes and a handful of sentences.

By leaving a review of this book on Amazon, you'll show new readers that financial freedom is possible and point them in the direction of the guidance they need to get there.

Simply by telling new readers how this book has helped you and what they can expect to find inside, you'll point them in the direction of everything they need to know to get started.

Thank you for your support. Financial freedom is more possible than many people think – let's help them realize just how possible.

PART II

FIVE WAYS TO RAISE MONEY

This part discusses the five most popular strategies to raise money for all the real estate investing techniques discussed so far.

5

THE MOST COMMON FINANCING ROUTES

"If you would know the value of money, go and try to borrow some."

— BENJAMIN FRANKLIN

It is no secret that all those loans advertised to you as the easiest, most convenient, and least expensive are so only until you want one for yourself. Anyone who has ever taken out a loan, small or big, will attest to the fact that the lending-borrowing process is quite an arduous undertaking. But by now, you will have understood that you cannot outrun loans for too long as a real estate investor. Loans are one of the reasons why people are wary of investing in real estate: it is rarely doable with money out of their own pockets.

As a real estate investor, you will do much better if you treat this process as a friend rather than resisting the idea of borrowing money. Because if there is one thing I have learned from my years in real estate, choosing the right type of lending and having the right lender in your corner right from the beginning can save you a world of pain later.

In this chapter, we will take an in-depth look at the most common ways investors use to raise money in the real estate sector. We will also explore some of the most popular financing strategies. These have all been clubbed as the first

method of raising finance because they are the ones a new real estate investor gets introduced to right off the bat. The later chapters, however, will explore the less conventional financing strategies used in real estate. Traditional or not, remember that our end goal is to ensure that we are not ever blocked from achieving success due to the no-money bump.

REAL ESTATE INVESTING TIDBIT

In 2022, over 807,000 home equity lines of credit—or HELOCs, as they are popularly known—were approved, reaching up to almost $131 billion (Venugopal Ramaswamy, 2022.) this means that more and more people, both homeowners and investors alike, are realizing the value that HELOCs offer and utilizing them quite effectively. These home equity loans might just be what you need too!

SOMEONE LIKE YOU

Stephen W. is an electrical and power distribution designer from Virginia who stumbled onto real estate investing thanks to a powerful seminar. There were two hurdles in his way: Firstly, even though he knew he wanted to start investing right away, he needed to learn more about real estate. So, he started taking every opportunity to learn more about real estate—reading, attending more seminars, talking to other experienced investors—he did all of it.

His second problem was much more practical. He didn't have the money to use all of the knowledge he was gathering. He then approached a hard money lending organization which turned out to be his best decision. Through this lender, he raised money to buy his first property and do the rehab. Eventually, he earned upward of about $40,000 in his first flip. Since then, he has reinvested most of the money and has been applying all of his learnings to his real estate ventures.

THE BORROWING PROCESS

A mortgage is the first thing you think of when buying a property. So, you hustle to find the right property only to realize that you probably should have figured out your financing even before looking for the property. Believe it or not, that is a classic rookie mistake that most new investors make. I am here to make sure you are not one of them.

So, let's start at the beginning—before even considering which property or loan you should look at, you want to ensure that you are pre-approved for a loan. Pre-approval is often thought to be the same as pre-qualification, but for practical purposes, they are most certainly different. Pre-qualification is a somewhat vague estimate of the amount of loan you can be given based on your current financial situation. On the other hand, pre-approval is a much more specific process where the lender takes into consideration all parts of your past credit and your current income to determine the loan amount you will qualify for.

The lender considers several factors when processing your pre-approval—your income, credit score and history, as well as the valuable assets you own. Based on this information, they calculate two figures which play a significant role in whether or not you will be pre-approved—the debt-to-income (DTI) ratio and the loan-to-value (LTV) ratio. We already discussed DTI in Chapter 1, but to refresh your memory, it is the ratio of your total monthly debt to your monthly income. A lower DTI indicates that you have a fair amount of income to fulfill your debt obligation. The LTV ratio, on the other hand, compares your loan value to the value of the property for which you're seeking the loan. Even if you may not have

narrowed down the property, the LTV may be roughly estimated by considering the average price of properties around the area you're looking in. Remember that pre-approval, by no means, is the final step, and the terms of the loan can certainly change as you move forward.

Your pre-approval comes in the form of a letter that is valid for around three months; this means that you now have to lock in on a property within that time, or else the pre-approval expires, and you might need to start the entire process all over again. Also, pre-approval requires a hard credit inquiry which means the lender would gain access to your credit score and do some deep digging. This kind of detailed credit check bumps off a few points on your credit score. Though one hard inquiry does not impact your score *too much*, having multiple such checks on your credit history consecutively is not advisable. Therefore, getting your pre-approval when you are ready to invest is a good idea rather than letting it expire.

Let's say, in a month or so, you find what you are looking for and close the deal. Even here, your pre-approval lets the seller know you mean business and are not wasting their time. Once the Purchase and Sale agreement has been signed and the earnest deposit given to the seller, the lender enters the scene again. Now it is time to get your actual loan application approved. They will want to look at all of these agreements and property documents, so it is essential to keep them handy. The application, along with the copies of all of these documents, is then sent for underwriting, where the underwriter checks and double-checks whether you meet the lender's requirements and whether all documents are in place. It is at this step that the amount of loan you will receive is decided. As I said earlier, depending on the property's

condition, it may be between 60–75% of the property value, sometimes even up to a generous 80%.

That is not where it ends though. You still have the lender's property appraisal and a second round of underwriting before the deal is closed. As you may have guessed, the more issues the appraiser finds, the smaller the loan amount becomes. Once again, the underwriter puts your case under the microscope and may ask for any documents that may have been missed before finally approving the loan for you.

Since there are multiple steps to this process, a skeletal framework might be helpful:

1. Research and number crunching to determine what the lenders in the market are offering
2. Analyzing and ensuring that your credit report has accurate information
3. Shopping for the best possible interest rates
4. Getting pre-approved
5. Applying for a loan after you have closed the property
6. Underwriting of documents and requirements
7. Property appraisal
8. Underwriting the property
9. Loan approval

Also, make sure you keep the following documents handy whenever you are applying for any type of loan:

- official ID
- income and tax documents like pay stubs, W-2s, 1099s, proof of employment, bank statements, etc.
- proof of residence
- proof of any other valuables assets

Even though I have put this process down very briefly, the actual financing process can be painstakingly long and exhausting. Especially in your first property purchase, it might feel like you are jumping through pointless hoops, answering basic inquiries, and submitting infinite documents. But having a general outline of what to expect and having the essential documents in place significantly reduces the stress. Also, it gets easier as you learn the practicalities of the process and also as you develop a relationship with your lender.

The above process may seem somewhat scary, but the good thing about real estate is that you are never stuck with just one way of doing things. As with investment strategies, there are also different types of borrowing options that you can look at. As we explore these, you will find that some may be more suitable than others for a particular kind of investing. Moreover, each borrowing option may require you to go through a slightly different process based on the lender's requirements.

All the investment strategies we have discussed so far have a strong financial analysis at their core. Without that analysis, even the best strategies would fall flat on their faces. Your borrowing situation forms a major chunk of that financial analysis; this makes it crucial that the type of borrowing you go for is not based on a whim but has an elaborate research backing.

Conventional Home Loans

When you hear friends and family talking about their mortgage payments, it is likely that they are talking about conventional home loans. A mortgage is a promise to pay off the lender's loan in several installments over a predetermined period. These installments are made up of a principal amount and interest. The lender treats the property as collateral until the mortgage is paid off, meaning they have the right to seize it if the borrower defaults on payment.

Several types of mortgages are available, and the borrower can get these from various sources like banks, credit unions, or even through a mortgage broker.

- ***Fixed-rate mortgages:*** In this type of mortgage, the interest rate is locked in right at the beginning, and this same rate applies throughout the entire length of the mortgage; this is the most common and desirable form of mortgage, even more so for an investor because it provides the clarity that is much-needed for the profitability analysis of the property.
- ***Adjustable-rate mortgages:*** Abbreviated as ARM, these mortgages have a fixed interest rate, to begin with, for a certain amount of time, and then it switches to a variable interest rate schedule. There are rules and limits as to how much interest can increase in the future. And there is always the tiny possibility that the rates can decrease, allowing the borrower to pay less than what they would otherwise. However, these mortgages can still prove to be expensive in the long run if the interest rate climbs. Therefore, it is crucial that you assess the situation carefully, even though they may be tempting with their initially low interest rates.
- ***Interest-only loans:*** These are the most deceptive of all. They require you to pay only the interest on a loan for a set period, mostly 5 or 10 years; this means that the payment of your principal either happens at the very end in the form of a lump sum, sometimes known as a balloon payment, or in big chunks after the initial years.

There is also something known as a reverse mortgage, which is not a mortgage at all but a financial product for those above 62, where they can convert the equity in their home into cash payments that they can receive from the lender; this is more of

a retirement tool than an investment tool, so I will not recommend it for our purpose.

Mortgages can also be distinguished based on their duration. They may run for anywhere between 5 to 40 years. That being said, 15 and 30-year mortgages are the most common among homeowners. A mortgage spread over 30 years will have a lower monthly payment than a mortgage with a shorter duration. However, it also means that you may pay substantially more—sometimes even hundreds of thousands more in interest over the years; this is significant for investors and must therefore be kept in mind when choosing the length of the mortgage.

Pros and Cons

The obvious advantage here is that these loans are readily available everywhere, and the borrower has many options, right from the loan length to the type. The second advantage to conventional financing is that you can borrow a great deal of money through jumbo loans *if* the lender likes your credit situation. And that big "if" takes us to the disadvantages.

Conventional loans might not be the best idea for you if you have a bumpy credit history. For starters, your credit score needs to be 620 or above. Moreover, if you have declared bankruptcies in the past, have a record of delayed payments, or have had your assets foreclosed, then there is little chance that a conventional lender will help you. Even when your credit history is spotless, but your DTI percentage is high, your lender might still take objection.

Apart from this, another disadvantage comes in the form of private mortgage insurance (PMI). Conventional lenders often require you to purchase PMI if you cannot put 20% of the purchase price as a down payment; this can vary from lender

to lender and generally ranges between 0.58 to 1.86% of the original loan amount as a yearly payment. Of course, you can request the cancellation of this charge when your equity in the property reaches 20%, but until then, it can be heavy on the pocket.

Conforming Loans

Conventional or traditional financing may bring relief to many real estate buyers, but unfortunately, not everyone can qualify for these loans; this is where the US government steps in and provides various special loan options for qualifying individuals. Conforming loans are a subset of conventional loans, but they have specific characteristics that qualify them as a class of loans in themselves.

These loans are also issued by private lenders such as banks, but unlike conventional loans, they are also backed by agencies called Federal National Mortgage Association (FNMA), popularly referred to as Fannie Mae; the Federal Home Loan Mortgage Corporation (FHLMC), popularly called Freddie Mac; and Government National Mortgage Association (GNMA), popularly known as Ginnie Mae. While the first two are private agencies owned by shareholders, the last one is a government agency.

These agencies are responsible for the mortgage market and back *only the single-family properties* that conform to their standardized regulations, hence the name conforming loans. In simple terms, these agencies act as the borrower's guarantor, and if the borrower defaults, these agencies would be responsible for paying the lender. Of course, I have simplified how these agencies function. Still, the important thing to remember here is that these loans are often available at a much

lower interest rate because of the backing of Fannie Mae, Freddie Mac, and Ginnie Mae.

When you read the above paragraph, I am sure the fact that these agencies back only single-family properties stuck out like a sore thumb. What use is it to you as an investor, then, and why are we discussing it? Well, it is a sort of workaround that you might find useful. Yes, conforming loans are available only for single-family primary residences, meaning that you will need to reside in that property for you to be eligible. Someone looking for multifamily properties has no use for these. But these may provide a great stepping stone for a beginner investor through effective house hacking. You can still benefit from these loans if you purchase a quadruplex, reside in one of the units, and rent out the rest; this can be the capital catalyst you need for your future projects.

Note that the conforming loans backed by Fannie Mae and Freddie Mac have slightly higher credit standards than the ones insured by Ginnie Mae. Here are some examples of conforming loans backed by GNMA that you might want to look at:

- ***FHA loans:*** Federal Housing Administration loans are specifically designed for families with low to moderate income. The buyer is required to make the minimum down payment and may even have a less-than-ideal credit score.
- ***VA loans:*** The US Department of Veteran Affairs allows veterans, as well as active members and their spouses, to take out loans to buy homes at extremely low interest rates, with no down payment and minimum credit requirements.

- ***USDA loans:*** The US Department of Agriculture offers no-down-payment mortgages for low-income rural buyers.

The minimal interest rates and down payment requirements on these loans can be just the leverage you need to get started.

Pros and Cons

Here, besides the obvious lower interest rate advantage, there is also the possibility of a smaller down payment requirement. These loans are also geared toward people with low incomes and poorer credit. That being said, the DTI requirement may still be a concern, as an already debt-burdened individual may not be a great candidate for these loans.

Even within the conforming loans, borrowers may prefer VA, FHA, and USDA loans. The loans backed by Fannie Mae and Freddie Mac may have much more tedious documentation requirements as compared to VA, FHA, and USDA loans.

Hard Money Loans

The major difference between traditional financing and hard money loans is that a hard money lender does not care much about your creditworthiness. They are more concerned about the asset's value that is kept as collateral, which, in this case, would be the property itself. They are more interested in the after-repair value (ARV), which makes it possible to get the loans even if it is a distressed property; this can be a tricky proposition with conventional financing.

These loans are often treated as short-term instruments. They are called *bridge* loans because they bridge the gap between borrowers' finances until a more viable long-term option becomes available. They are usually quite expensive with very high interest rates. A hard money lender is, after all, taking a

higher risk than a bank since they are not at all sure how reliable the borrower can be.

Hard money loans are particularly popular with house flippers and BRRRR investors whose business model is specifically based on distressed properties. Remember that both aim to turn their assets profitable in the shortest possible time; this means that even if the loan is extremely expensive, the fact that it will be paid off quickly makes it a desirable option.

Hard money lenders are often perceived negatively by the larger population. I have seen many people confuse them with loan sharks, primarily because these lenders' primary focus is the property and not the borrower; this paints the picture that they are somehow hoping the borrower would default on the loan so that they can unscrupulously seize the property and sell it for a massive profit. While this seems like a great plot for a mafia movie, it is hardly the case in real life.

Remember that hard money lenders are working within the lending niche, which means that foreclosing and selling the property brings a ton of headaches for that lender—it would be much easier for them to get their money back with the principal and the high interest rate. Now, I am not saying that there are not bad lenders here—obviously, there will be, but to be honest, you will come across bad professionals everywhere. It has nothing to do with hard money as such.

Pros and Cons

Since hard money lenders are not investigating your credit history, their underwriting process goes through much more quickly. These quick closing times, along with their flexible terms, are especially advantageous to investors. Lastly, since the loan amount is based on asset value, you can eliminate the

whole pre-approval process and get this loan even at the last moment.

The excessively high interest rates are obviously a problem, but in addition to this, your lender might also require you to make a much bigger down payment, sometimes even up to 30%; this becomes problematic for an investor if they have a limited amount of money on their hands for the upcoming rehab.

Private Money Loans

These are a lot more informal in nature than any other loans. The lending and borrowing happens between friends or family, and no lending institution is involved. Sure, this works great when you have a rich Uncle William to come to your rescue, but unfortunately, not all of us have one. Does that mean that this form of financing is useless for investors? Definitely not. If you cannot approach people in their circle for loans, there are many investment clubs and networks that you can join. If you build genuine connections here, one of these members may become your private lender.

The terms and conditions on these loans are, of course, significantly different depending on who your lender is. A family member might offer you very lax repayment options, while a lender from your investment club may ask for a much more structured form of repayment. They may even ask you to sign a contract that allows them to foreclose a property if you default. The best idea is to talk to multiple lenders, clarify their terms beforehand, and then make the best possible choice.

There's also one more aspect that I urge new investors to keep in mind—while it may be more tempting to accept the much more forgiving loan terms from people close to you, it's not always a great idea to mix business with your relationships.

Always consider how this transaction will affect the big picture of your relationship before taking on loans from friends and family.

Pros and Cons

Private money loans can be much more flexible, with much fewer requirements for the borrower to fulfill. These are also much quicker than others as they do not have a specific process to adhere to.

That being said, private loans from someone with whom you share a purely business-like relationship can become extremely predatory, with ridiculously high interest rates and a strict repayment schedule. Like hard money loans, the borrower must constantly be in a race with time to make quick payments or risk losing the property altogether.

Private money lenders are also quite difficult to find because they may not be officially registered anywhere. Apart from joining local investment clubs and attending real estate investment networking events, you can try your luck by searching social media platforms like Facebook and LinkedIn. Still, there are no guarantees that they will yield results for a private lender. The best way to reach them is through word of mouth and networking events.

Home Equity Line of Credit (HELOC) and Home Equity Loans

Home equity is an important financing channel for investors. These are based on the borrower's equity in their home. Equity is the difference between your home's market value and the mortgage you still owe on it. This equity is established for the very first time when you make the down payment on the property. If you make a 20% down payment, then it means that the 20% share of this property belongs solely and entirely to

you while the lender still has an interest in the other 80% of the property. Your home equity then keeps increasing with each timely mortgage payment.

Let’s say a property is priced at $200,000, and you make a 20% down payment on it. In this situation, your equity in that property will amount to $40,000. Though we measure it in dollars, equity does not convert to cash directly. However, the borrower can leverage their equity in the property to gain access to more funds. If you remember, we spoke of cash-out refinance in the context of BRRRR, which allows you to borrow more than you owe, thereby helping you settle the debt much more quickly; this is just one of the ways of leveraging your equity.

You may have heard of people taking second mortgages; this is precisely what a home equity loan is. The borrower is often loaned a lump sum against their equity which they may use to fund other expenses like college tuition, home renovations, etc.

HELOC is a special manner in which the borrower can tap into their home equity. The easiest way to understand HELOCs is by comparing them to a credit card. Just as credit cards allow consumers to borrow up to a specific limit over a month, HELOCs also enable borrowers to borrow a certain amount over a fixed period; this is a revolving line of credit, which means that the borrower can continuously borrow while paying off their debt simultaneously and also ensuring they do not go over the permitted limit. HELOCs come in two forms—variable and fixed-rate HELOCs. A fixed interest rate is always desirable, but in the case of HELOCs, you might want to clarify the terms with your lender, as they might have varying rules about their usage.

Borrowers often question whether to take out a home equity loan or go for HELOC. Well, as I always say, it depends on what your needs are. HELOCs are more beneficial if you are not looking for a large sum of money altogether but want to keep a financial backup in case of an emergency.

Pros and Cons

Borrowing against home equity may allow you to pay lower interest rates, but this advantage comes at the cost of keeping your primary residence as the collateral and losing it in the case of default. While this applies to all forms of borrowing against home equity, choosing one form over the other has several pros and cons.

For instance, HELOC brings with it the innate tendency to overspend. So, if you are not disciplined regarding where you are investing it, you may not realize where the money goes, just like in the case of a credit card. On the other hand, this revolving credit line can be great for covering the costs of rehabbing your investment properties, particularly the ones you may not have accounted for.

KEY TAKEAWAYS

You may have realized by now that choosing your source of financing is a feat in itself. And these are only the common financing routes; there are many more to come. But even within these routes, there is a fair bit to consider:

- The traditional borrowing process includes roughly six steps: pre-approval, loan application, underwriting, property appraisal, a second round of underwriting, and, finally, closing.
- Pre-approval should not be confused with pre-qualification. Pre-approval requires a hard credit inquiry and usually requires you to submit documents to prove your credit history, income, and assets you own.
- Conventional mortgages come in many forms, but the fixed-rate mortgage is the most preferred.
- It is also advisable to pay off the mortgage as quickly as possible because the longer the mortgage, the more interest you pay.
- If you are going for a conventional mortgage, you also want to check your lender’s private mortgage insurance requirements. You may have to buy PMI if you are not making a 20% down payment.
- Conforming loans are the ones that are backed by and conform to the guidelines of agencies called Fannie Mae, Freddie Mac, and Ginnie Mae. Ginnie Mae is a government agency, while the other two are privately owned but drive the mortgage market.

- FHA loans, VA loans, and USDA loans are examples of loans backed by Ginnie Mae, and these tend to have more relaxed guidelines than mortgages backed by Fannie Mae and Freddie Mac.
- Hard money loans are based on the property's value, not the borrower's creditworthiness. These have high interest rates and are therefore feasible only if they are paid off in a short time.
- Private loans are given by friends or family, or other real estate investors. The terms vary from lender to lender. The borrower must choose a lender with the least predatory rates.
- Borrowers can also borrow against their home equity through home equity loans, HELOCs, and cash-out refinance.

With these common financing techniques out of the way, let's move on to slightly unconventional methods.

6

PERSONAL AND BUSINESS LOANS

> *"If money go before, all ways do lie open."*
>
> — WILLIAM SHAKESPEARE

Well, we do not need Shakespeare to tell us that money can make all our lives much easier. Sure, it can't buy you happiness, but it can buy security, and that is something no one can deny. In the world of real estate, finding money is just as important a skill as finding a good deal. As an investor, you need to think of creative ways to gather the greens to make your business successful. Personal and business loans are one such path in our quest to find that money.

At this point, you might be wondering why we have segregated these two from other forms of lending; this involves borrowing, too, after all. That is true, but there are two main reasons for this structure. Firstly, while investors pounce on the techniques mentioned in the earlier chapter, they do not always consider this route to raising capital; this is not because it is ineffective but because they are unaware of the workaround we will discuss in this chapter. Secondly, all borrowing options discussed earlier hold the property as collateral; personal and business loans do not do this—and we will see why. In this chapter, we will discuss the potential of

these two loans to generate the capital that can open up the ways for your real estate success.

REAL ESTATE INVESTING TIDBIT

Most new investors are discouraged by the fact that they need more money to start a new venture. Here is the shocker—real estate investing is not about the money you have but about the money you can procure through innovative ways of approaching finance.

SOMEONE LIKE YOU

Kendra Barnes stumbled upon real estate investing through the most intriguing path—while playing a real estate board game called Cashflow. She previously worked for the US government as an economist and had never even considered real estate as an income option. With a family to care for, she and her husband could not afford to invest their on-hand savings into this new venture. The only option they were left with was to take out a loan for the down payment.

Instead of going for traditional financing, though, they took out a loan from their retirement funds; of course, this was a risk, and she highly recommends consulting a financial advisor before making such decisions. But the loan helped her acquire her first rental property. Gradually, she gained momentum by using the profits from one property on the next, which helped her quit her desk job and transition into being a full-time real estate investor.

SOME MORE LOANS TO FUEL YOUR JOURNEY

We have spoken about many lending practices already, but we are not done yet. It is time to move on from the lending option frequently and specifically used for real estate to forms of loans that can be used for multiple other purposes. Let’s see how these would fare in the real estate context.

Personal Loans

Personal loans give you the freedom to use the money you acquire for any purpose you wish. Unlike other loans, which are given for specific uses like car loans or mortgages, any personal expense is fair game here. The repayment terms are similar to other types of loans where there is a monthly payment, a specific repayment period, and, of course, our old friend: the interest rate. The longer the loan term, the more interest you pay, similar to what we discussed regarding mortgages.

These loans are either secured with collateral of some kind, like a retirement fund or a car, or unsecured, which do not require collateral. Since the latter is riskier for the lender, you might need to pay a higher interest rate for unsecured personal loans. Some lenders may even charge you origination fees to take out a personal loan. Whether or not these fees will amount to anything—and how much they *do* amount to, if they do—will depend on many factors, such as your credit score, income, assets, and your debt obligations. Some may even charge a prepayment penalty if you decide to pay off the loan within a shorter time frame than is agreed upon previously. Not all lenders and all loans would have origination fees and prepayment penalties, and not all lenders will have the same

interest rate. Therefore, it is crucial that you shop around and compare the terms and conditions of several lenders before locking in on one.

If you do decide to go for it, there are several types of personal loans available:

- credit card refinancing loans
- debt consolidation loans
- wedding loans
- medical loans
- emergency loans
- home-improvement loans

The last one would be especially relevant for you as a real estate investor, and you will want to shop for lenders that give you the best terms on that specific type of personal loan. The remaining process of getting a personal loan is similar to that of a conventional loan, except that there will be no property appraisal. Also, since no property is involved in this, you should get prequalified rather than preapproved so that you do not have any hard credit inquiries.

Personal Loans for Investment

You might think that using a personal loan for real estate investments is a no-brainer—there are no restrictions on what you can use it for, after all! Well, that may not be as simple as you imagine. Arguments can be made for and against using personal loans for investments; it is essential to understand these before reaching a conclusion.

Consider these two situations where it might be a good idea:

- ***Low-risk investments:*** The first thing you want to check before investing is the risk the investment carries and how closely it aligns with your risk appetite. For instance, investing in a suburban locality where there is very little happening but where you hope the area *might* see some infrastructural development in the future is a considerable risk. On the contrary, a locality with a high demand for rental units might be an investment that has a much lower risk. Using personal loans for the latter would be a wiser choice.

Remember that no investment is ever risk-free. As an investor, all you can do is ensure you are confident about your numbers and that the risk is manageable and calculated rather than reckless. So, you should only use personal loans for real estate investments that are more likely to earn you returns in the future.

- ***Excellent credit score:*** A personal loan is a great way to leverage a spotless credit score. If your lender thinks you are good on your credit, you might be able to score a low interest rate on your loan and eliminate those origination fees we discussed earlier. According to Jordan Tarver of Forbes Advisor, borrowers with high credit scores can snatch personal loans at as low as 4% (2023). That is an extremely competitive rate, especially if you plan to use the money for investing —the lower the rate, the bigger your profit margins.

These situations, however, cannot be analyzed in a vacuum; rather, they need to be compared with the ones where personal

loans might pose a risk to the investor to reach an objective outcome. Take a look at the following cons:

1. ***Underwater investments:*** The biggest disadvantage of using personal loans for real estate investments is that there are no guarantees in the real estate market, or any other market, for that matter; this means that no matter how sure you are of a particular investment, there is always the chance that it might tank. If this happens, you may pay a lot more than the asset's worth in the form of interest. Such assets are often called underwater assets, where even if you decide to sell the asset and pay off the loan, it will still not be enough to fulfill the debt obligation. Many owners of ill-managed rentals often find themselves in this fix where they can neither pay off the debt nor sell off their properties.
2. ***High interest rates:*** Lenders can do magic with their offered rates—having to pay a high interest rate on your loan can make your profits disappear. If you plan on making any profits by using a personal loan, then you need to ensure that your returns are higher than the interest rate you pay. For instance, if your interest rate is 8%, but your returns are 6%, then you are losing money, and that is not a good place to be.
3. ***Credit damage:*** This is the primary concern with using personal loans instead of business loans; the inability to pay off debt can significantly harm your credit rating.

Remember that these pros and cons are like two sides of the same coin. Looking at just one side will only give you half the picture, and that is a mistake that most new investors make—

they are either too reckless or too cautious. Running the numbers to determine whether these loans will be helpful to you is the best way to ensure that you keep emotion and vague gut feeling out of the decision. After such objective analysis, many investors may find that a business loan rather than a personal loan would be more beneficial to them.

Business Loans

Remember when we spoke of treating real estate investing like your business? Well, making it into a business, not just attitudinally but also legally, can be one way of raising capital —business loans. Of course, I am not suggesting that these are always better than personal loans—that is something only you can decide based on your situation—but business loans do have some great benefits worth considering.

For starters, they help borrowers limit their liability to a great extent; this is particularly useful for a real estate investor. Not to scare you off, but dealing with tenants and prospective buyers can significantly increase your liability exposure. Even with different types of insurance, you might still run into financial troubles. For instance, if a buyer, after purchasing a property you flipped, decides to sue by claiming that you failed to fix some major issues, then you might be required to pay massive damages.

Even excluding problematic clients, you may find yourself in financial trouble and unable to pay off the loans. At times like these, a personal loan can be catastrophic, whereas a business loan stays limited primarily to your business assets. Of course, you are required to take some responsibility for your business loan as well, but not to the extent that it would ruin your personal credit completely. Additionally, a clear separation

between your personal and business finances is always a plus when viewed from the lens of taxation.

Another huge advantage of business loans over personal loans is the much larger sum of money they allow you to borrow. While personal loans typically range from $1,000 to $50,000, business loans are for much larger amounts that may run into hundreds of thousands, sometimes even millions. These loans generally also offer better rates and have much longer repayment periods, giving businesses a fair amount of time to settle their debts. Your business credit can improve tremendously when you maintain a good repayment record on these loans.

However, as great as they sound, they are also pretty challenging to obtain—personal loans, on the other hand, may be much easier to get. While business loans can significantly boost the cash flow of your investments, their guidelines tend to be much more stringent than those of personal loans. You can imagine what that can mean in terms of the red tape around them: They come with what can easily classify as tedious amounts of paperwork; the slightest error and your loan application may end up straight on the rejected pile.

Businesses usually qualify for all the loans we discussed in the previous chapter. However, there are a couple of other loan types that might be particularly useful for businesses. Remember that these are not meant exclusively for business owners, and individual investors may also take advantage of them, but due to their multi-property nature, businesses may find more use for them:

- ***Blanket mortgage:*** This mortgage allows the company to purchase several properties at the same time and have one mortgage cover them all; this can

save the company the hassle of managing different mortgages and can be quite an effective cost-reduction tool.

- ***Portfolio or non-conforming loans:*** Remember when we spoke of conforming loans that follow the guidelines of Fannie Mae and Freddie Mac? Portfolio loans are non-conforming loans that allow borrowers to borrow much larger sums than these agencies would insure. Private lenders do not sell off these loans to the secondary mortgage market through Fannie Mae or Freddie Mac but rather keep them in their own portfolios; this allows the lenders to customize terms and conditions regarding size, credit and DTI requirements, down payment needs, and so on.

Apart from these, if you are looking for business loans for commercial real estate, then you should check out Small Business Administration (SBA) loans, which are specially meant for small business owners looking to purchase and develop commercial properties and not residential ones.

Okay, we have been discussing all these types and advantages of business loans, but what if you still need to get a business? Obviously, you can not get up one fine morning and decide to start a business and expect that to hold legally. And this part trips up most investors: How to create a real estate business? You need to consider several legal aspects, and I have got you covered on that.

Seeing how the real estate market is teeming with zillions of intricacies and possibilities, it should be no surprise that a real estate company can be formed in multiple ways as well. Three of the most common approaches that investors use in this regard are:

- ***Sole proprietorship:*** If the individual has not formed a separate legal entity to take care of the operations and expenses of their investment properties, then it will automatically be termed as a sole proprietorship; this is the default setting that we talked about earlier, which exposes you to unlimited liability and tax complications that come with your business income being considered part of personal income.
- ***Limited partnerships (LPs):*** These companies tend to have one (or more) general partner and one (or more) limited partner. The general partner remains responsible for the business as a whole and has unlimited liability. On the other hand, the limited partner, often called a silent partner, does not take an active part in managing the business but only provides a percentage of the total capital. Their liability is calculated in proportion to the funds supplied by them. This skewed distribution of liability may be a turn-off for many investors.
- ***Limited liability companies (LLCs):*** This is one of the most preferred options for a business entity among real estate investors. Think of these as a shield between you and the liability; this essentially means

> that your business income does not fall into your hands directly but is passed through the LLC entity. These are also eligible for what's known as pass-through taxation; this means that since the income eventually is passed on to the individual, personal income tax is paid on any earnings from the business rather than filing separate returns on your personal and business income; this is great for reducing taxes.

Also, though your business assets may be collateral for the loan, your personal assets are protected in the transaction. Remember that this protection is not absolute, and your personal assets may be exposed if there is evidence of mixing personal and business funds and other forms of legal fraud.

Of course, you can proceed with any of these as long as it aligns with your goals. Here, however, we will look deeper into LLCs because they carry the most benefits for the most investors.

Forming an LLC

When establishing an LLC, many investors confuse it with a business corporation, which also protects against liability. Regardless of this superficial similarity, there are significant differences in how LLCs and corporations function. Since details about their functioning are outside the purview of this book, let's just remember that, unlike LLCs, corporations have to pay their business and personal taxes separately, often increasing their tax obligations.

If you wish to proceed with the formation of an LLC, check out the basic steps that you will need to take into account:

1. Naming the business: You may have always dreamed of owning a business, and that business's name may also have an

emotional connotation for you. It would then only seem natural to choose that name. Or, if you are a marketing kind of person, you might want to pick a name that stays at the top of people's minds.

Though these are both valid reasons for choosing a business name, you also want to ensure that whatever name you choose also aligns with the state laws. For instance, no matter how much you love a name, you will not be allowed to use it for your business if another business already uses it. Businesses are also usually required to add "LLC" at the end of the name to declare their status. Remember that these laws vary considerably from state to state, and you must follow those laid down by the state in which you are forming the LLC.

You can go to the state website that deals with business filings —usually the Secretary of State—to find the rules as well as the availability of your preferred business name.

2. Finding the right registered agent: A registered agent is a representative of the LLC, and every LLC is required to have one. These individuals need to be over the age of 18 and must have an address of correspondence within that state. They must be present at this address during business hours to receive documents or legal communications like subpoenas. The agent is responsible for ensuring that all of these documents are passed on to the LLC.

Many platforms offer registered agent services like ZenBusiness or BetterLegal, and can cost upwards of a hundred dollars per year. The platform Inc. Authority even provides these services for free in the first year. However, if you are confident in your organization skills, you can register yourself or an employee for this responsibility—the requirements are that the documents not be misplaced and be

responded to appropriately in a timely fashion. For this, you will need a considerable understanding of local laws and must be fluent in legal speak. Also, remember that the registered agent's contact information becomes a part of the public record. If you or your employee are uncomfortable with that, hiring the above services will work better for you.

3. Filing the articles of organization: Articles of organization are nothing but an outline of your company's finer details. Sometimes known as a certificate of formation, the form for these articles of organization will be available on the same website I mentioned earlier for name-check.

An "Articles of Organization" form will typically include the following:

- The business name and address.
- Its purpose.
- A management plan.
- The registered agent's contact details.
- The LLC's duration.

You may also need to choose the type of LLC you will be forming, such as one of the following:

- Single-member LLC: These are obviously the ones owned by single members.
- Multi-member LLC: These are owned by two or more members, whereby some might take on the managerial responsibilities, and others remain as managed entities.
- Low-profit limited liability company (L3C): These are hybrid structures with traits of both profit and

non-profit organizations that wish to focus primarily on charitable social causes rather than earnings per se.

- Series LLC: This is like a pyramid of LLCs where the LLC at the top owns lower tiers of LLCs, each of which has largely independent operations.
- Restricted LLC: These LLCs are neither taxable in their first decade nor can the member draw profits.
- PLLC: This can be used only by licensed professionals.

Different states may have more or fewer details, but this is the overall format that the business owner will need to sign and submit to the state. The authorities then process this form and approve the formal registration of the LLC, thereby granting you the certificate of formation. This document is extremely crucial and will help you complete further formalities like obtaining a tax ID or opening a business bank account.

Creating an operating agreement: This is like the elaborate version of the management plan you have filled out in the above form; this would outline the roles and responsibilities of the members of the LLC, which include the owners as well as employees, if any. It will also determine the method of profit distribution, capital procurement, and the procedure for leaving the LLC.

Different states may again vary in their requirements for this agreement, but one should be created regardless. For LLCs with several members, it is a great tool to establish boundaries and clarify each member’s rights. An experienced attorney can do this for you in a much more effective and legally appropriate manner. Even if it is just you, your operating agreement is somewhat of an LLC-geared version of your business plan and is a must-have.

4. Checking for other state/federal mandates: Once the LLC is formed, you need to ensure it remains active and follows all the requirements. For instance, depending on the state, you might need to file an annual report of the LLC activities and pay a yearly filing fee which may be several hundred dollars. Getting an EIN or employer identification number to facilitate the separation of personal and business income and assets is another requirement that will make life easier for you. At this stage, you need to do a thorough check of the mandated licenses and permits so you can avoid trouble later.

With the many differences in state requirements, investors often wonder where their LLC should be registered to reap the highest benefits. Well, the truth is that the best state to register your LLC is the state where you make your investments; this will be the best way to keep this whole process cost-effective and simple. And I assure you, you will crave this simplicity while you are completing all the above steps.

KEY TAKEAWAYS

Raising money for your real estate investments is all about using the options around you as creatively as possible. But for this to happen, awareness is the first and foremost step.

- Personal loans have no restrictions on how the borrower can use the loan amount. They can either be secured with collateral or unsecured. Unsecured personal loans are more common and are based only on your credit score.
- While using personal loans for investments is risky, they may be a good idea if you have a strong credit history and can negotiate a lower interest rate.
- Business loans are secured loans that help you acquire, develop, and operate your real estate investments. They are typically borrowed against the company's assets. In case of a default, the liability is limited mainly to these assets.
- The most common types of real estate companies that can avail of these business loans are sole proprietorships, limited partnerships, and limited liability companies.
- LLCs can significantly reduce the investor's personal liability and protect their assets.
- An investor can gain information regarding forming an LLC by visiting the state website that takes care of business filings. Usually, this is the Secretary of State's website, but it may differ from state to state.
- Though forming an LLC may incur extra yearly fees, they can compensate by reducing your liability and

taxes.

7

GRANTS

> *"If you want more of something subsidize it, if you want less of something, tax it."*
>
> — RONALD REAGAN

Till now, we have discussed several forms of loans that can help the investor raise funding for their investments. However, these loans may not always be a feasible option for investors with quite tight finances. The fear of being unable to repay these loans is very real for many, and this fear often holds these investors back from great opportunities of creating wealth. Allowing these investors to move ahead with a clean slate without debt is definitely something that can change their lives and also shape the economy very differently.

The US government understands this and undertakes many measures to encourage investments in real estate. We have already discussed the manner of tax deductions and breaks that real estate investors can benefit from. And now, it is time to understand the subsidies and grants part of Reagan's quote. This chapter will discuss the many government grants that can help investors bootstrap their way to a significant investment portfolio.

REAL ESTATE INVESTING TIDBIT

Did you know that over 2,500 down payment assistance programs give grants or forgivable loans (Warden, 2022) for primary residences? House-hacking duplexes or quadruplexes while living in one of the units might be the perfect way to raise that extra capital you need.

SOMEONE LIKE YOU

Tameka Bryant and her husband from the Bronx, New York, had to endure the bitter and unfortunate taste of corporate layoffs. They were both fired from the organization on the same fateful day, which incidentally also happened to be their son's birthday. It was then that they made the difficult choice of not going back to corporate and doing whatever it took to find their way back on track. Tameka had the chance to associate with a grant-writing professional when she was 13 and decided to explore that option. She started an LLC and began her search for funds by looking locally.

Eventually, she stumbled upon the federal contracts and grants niche. She found a grant from the Economic Development Corporation that required her to purchase a property and fix it up externally. She began the search for her first property with the backup plan that she would live in that property and rent out the rest of the units if things did not pan out. Thanks to her hustle, things did pan out, and how!

Today, she does millions' worth of dealings in federal grants. She continues to swear by these grants and urges investors to dig deep. With the government funds waiting to be claimed, she recommends that real estate investors stop looking only at their real estate ponds and start looking at the bigger picture of being a small business; this can open up many options for them that they previously never considered.

WHAT ARE GRANTS?

Grants are the provision of funds to an eligible individual or a business entity without the condition that it will be paid back. It should be noted that this cannot be treated as "easy and free money" because the government does not simply distribute money to people to alleviate their money-related personal problems. Governments usually give grants to develop a community or stimulate the economy in some way.

The US government is deeply invested in real estate as a tool for this stimulation. Home ownership has always been a part of the big old American dream. Besides giving the masses a source of stability, comfortable housing allows them to raise their standard of living through household wealth. And a higher standard of living eventually means more lavish spending. Even when it is not home ownership but simply affordable housing, maybe in the form of rentals, it still allows people to ensure their own and their family's well-being, which is always a plus for any nation's economy.

Moreover, the government is quite interested in the overall employment ecosystem that the housing market creates—construction, real estate, infrastructural projects, and whatnot. Therefore, the government usually does everything it can to encourage people to buy, sell, build, or rent homes. When you, as an investor (and a crucial part of this ecosystem), take on projects to provide housing, you may become eligible for many grants designed to stimulate the housing market as a whole. Understanding these grants and their intricacies is necessary for you to get the maximum benefit from them.

Types of Grants Available

Grants awarded by the US government are an extensive topic, and when you dive in, you might see several confusing classifications. For instance, grants are given by the federal, state, or even local county governments. In addition to this, you might also see a number of distinctions between the kind of organizations that provide and receive this funding. In this section, I want to simplify this world of grants as much as possible for you, so let us focus on the most critical aspects for you as an investor.

To begin with, let's try to understand the four categories of grants that are available in the US. Any money that you receive in the form of grants comes from these four categories:

- ***Competitive:*** These grants have a process of selection in place. That means that not everyone who applies for the grant receives it. The authorities score the applications based on specific criteria and then choose the applicants who fit these criteria the best.
- ***Pass-through:*** These are simply the grants that utilize federal funds and are passed on to the applicant through state or local governments.
- ***Formula:*** These grants have predetermined standards and are non-competitive, implying that everyone who meets the criteria gets the grants. However, the amount of money may vary case by case.
- ***Continuation:*** These grants are renewable after a set period, such as annually; this does not apply to all grants, and many might just be one-time. It must be noted, however, that the grant renewal doesn't happen by default. In most cases, it depends on the funder's perception of how well the funds have been used to attain the grant's proposed outcomes, how closely the

reporting requirements have been followed, and how consistent the communication is. The applicant's overall rapport and relationship with the funder may also come into play. By this, I mean not the government directly but the officials who disburse the funds.

These different types of grants in the real estate sector often have separate considerations and requirements for different types of property. As a real estate investor, you are trained to think of properties as single-family, multifamily, commercial, and industrial. But with regard to grants, the classifications are a little different:

- ***Public:*** These are properties owned by the government. The government may put out contracts for the repair and renovation of these properties and provide grants for the same.
- ***Private:*** These properties are held by private companies.
- ***Collective:*** These are the properties owned by a group of people, such as cooperatives and community land trusts. The government supports these mainly because they can provide permanently affordable housing.

You will need to determine where your property will fit into these types. Furthermore, you also want to be clear about the exact status of your property. By status, I mean the precise stage in the investment process you are currently at. Are you in the acquisition and down payment stage? Or pre-foreclosure stage? Or maybe the renovation stage? This is helpful so you can align this status with the grants or loan modifications you might be eligible for. No matter where you are in the process,

there is likely a grant out there for you. It is all about finding it and aligning yourself convincingly with it so the reviewer believes you are the right person to receive it.

GOING AFTER THAT PERFECT GRANT

At the core of it, there are three components to getting the grant that suits your requirements perfectly (Connected Investors, 2019):

- ***Research:*** The first and foremost step that many investors just cannot get through is the most basic of them all—research. Even in today's internet age, where the world is at everyone's fingertip, this step somehow proves to be the most difficult because most investors are unaware of where to start looking.

The best place to start is the local office of the Department of Housing and Urban Development. You can talk to the officials there about the various grants available. That being said, keep in mind that these are government officials and may not necessarily have any working knowledge of real estate per se. But it is still helpful to talk to them and build a rapport because they might put you in touch with some people who might know the answers to all your questions. Also, face-to-face meetings often help people remember you, which comes in handy when you are competing for grant money.

Other than this, you can get information regarding these grants on government websites like hud.gov and grants.gov. You can be sure that whichever entity is giving the grants is definitely publicizing it as well—no one wants to keep this good deed a secret. So, regardless of what grant it is, it will be put up on the website.

- ***Asking:*** The process of applying for a grant is called grant writing. Writing a grant proposal should be a relatively straightforward process if you have written out a business plan and an operating agreement, as discussed earlier. Here are a few things that a successful grant proposal would have. Even after the proposal is sent in, it is advisable that you contact the officials to ensure that they have received the application and will be processing it sooner rather than later.

1. A cover letter: A good cover letter is one that establishes a connection with the reviewer and lets them know what you need briefly and without being too emotional.
2. An executive summary: This would be similar to the executive summary in your business plan and must let the reader know what your business mission is and what values it is based on. Give a brief account of what your business is, the problem it is trying to solve, the objectives it strives for, and maybe even the history of how it all started.
3. A problem statement: Here, you will dive deeper into *how* this problem you are trying to solve is impacting the community and if implementing projects similar to yours has yielded positive results in other localities.
4. Objectives: Follow the SMART framework to outline the outcomes you hope for. Make sure you include the plan you want to implement to reach those outcomes and the parameters that will let you know if you have succeeded or failed.
5. Business sustainability: Grants are often used by investors in conjunction with other sources of capital.

You will need to mention these. Also, you want to tell the grantee how you plan to keep the business afloat and what exit strategies you have in place.

6. Projected budget: This is one of the most crucial aspects of the grant. Many investors think they will receive more funds if they give inflated budgets. Reality is quite the opposite. Unrealistic numbers may suggest to your grantee that you have no real understanding of the field, and it may backfire. The best thing is to be as honest and accurate as possible.

While following all these steps, you also must ensure that you know what the funder's ultimate objectives are—why is this grant being given? What do they hope to achieve from it? Knowing the answers to these questions allows you to structure your grant proposal appropriately and make it even more appealing to the reviewer. Though many online grant templates are available, I recommend hiring a professional who knows what they are doing and what you are doing in your business.

- ***Follow-up:*** The last and final step is following up as often as possible without making it seem annoying to the officials. The idea is to stay in their memory. I have seen many investors form such a strong rapport with these officials that whenever they come across something suitable for these investors, they call them right up. Remember that if you have a proven track record and are personable, then these officials will know that the grant money will be used effectively and that you can make them look good in front of superiors.

TOP FIVE GOVERNMENT GRANTS TO INVEST IN REAL ESTATE

There are many, many government grants available out there—I would need to write a separate book to cover all of them in detail. But for now, I have compiled some of the best grants for you so that you have a starting point. While most investors would find this list very useful, it should not be considered an exhaustive list. You can find many more through a quick Google search. Just ensure you are referring to the latest resources to get the most relevant details. And, when in doubt, go to hud.gov and do a search to be sure.

1. ***RESTORE Act Direct Component—Construction and Real Property Activities:*** These grants are awarded by the US Treasury Department to develop the Gulf Coast region. Therefore, investors from Texas, Louisiana, Mississippi, Alabama, and Florida can receive the grant if they fulfill the criteria put forth. The eligible applicants are also required to submit (in phases, if required) multiyear plans of how they will achieve the grant's objectives. The amount allocated may vary from state to state.
2. ***HOME Investment Partnerships Program:*** The federal government allocates almost $2 billion annually to ensure that low-income groups have affordable housing. The money is then passed to eligible organizations through the state and local governments. Though individual investors cannot apply for these by themselves, they can certainly do so by partnering with these organizations.

3. ***Emergency Capital Repair Grant:*** This grant is given by the HUD department to ensure the safety and well-being of tenants. The owners of multifamily rentals may apply for a maximum of $500,000 in grants to undertake emergency structural repairs and immediate replacement of faulty equipment.
4. ***Real Property Investment Grant:*** Here, the investor can receive up to $100,000 per qualifying property as long as these investments do not exceed $5 million.
5. ***Neighborhood Stabilization Program (NSP) Grant:*** This is mainly intended for neighborhoods with multiple foreclosures. If the properties end up being abandoned, then it impacts both the visual appeal as well as the market value of the entire neighborhood. These can be especially useful for flippers and BRRRR investors who are looking to buy under market value.

PROS AND CONS OF USING GRANTS FOR INVESTMENT

To many investors, grants may feel like a godsend. However, there are both pros and cons to these that you must be fully aware of before jumping in. Many of these pros and cons are, in fact, quite intertwined with one another. The obvious advantage of most grants is that you receive a generous amount of money that you do not have to repay. However, this money doesn't come without strings attached—most plans require you to stay in the property for at least three years. If you decide to move before this period, you might have to repay the grant money. Even at the end of this period, getting out may become difficult if you have not built enough equity in your residence.

Another advantage is that receiving a grant can be great for your business as it places you in the good books of the authorities, especially when you do a good job. They are then likely to see you as a suitable candidate for many other grants as well. On the flip side, though, working with these grants can also feel particularly restrictive for your business as you hardly get any freedom in choosing the neighborhood or the objectives you set for yourself.

Once you weigh these pros and cons, you can determine if you really wish to use this method of raising capital. But even when you want to, remember that these are tremendously competitive, which means the chances of you landing a grant are not often very high. So, it is always wise to keep a backup plan ready.

KEY TAKEAWAYS

Grants come with *many* requirements of their own; if you are looking for one, you might want to keep in mind the following:

- Grants are of four types—competitive, continuation, formula, and pass-through. The federal, state, and local governments allocate these to homeowners/investors who match their requirements.
- The government grants can be seen published on hud.gov and grants.gov.
- Sending in an effective grant proposal is crucial, and you should hire an experienced professional to do it for you. Ensure that they also know your business well.
- Taking a grant might mean that you have to be a homeowner on that property and cannot move out for three years (or whatever period the grant specifies).

8

CROWDFUNDING

> *"Alone, we can do so little; together, we can do so much."*
>
> — HELEN KELLER

Imagine this: You have a real estate project that you want to take on. You have spent countless hours researching the deal, running the numbers, and devising a foolproof plan. However, the enormity of this project puts the required capital well out of your reach. But you are not one to give up. So, you decide to pitch this perfect deal to a few wealthy investors who can help raise capital for your project and receive good quality returns in exchange. You reach out to them personally, schedule a lunch with each, make sure they are in a good mood, and finally make your pitch. The act of pitching the deal seems more complicated than all the work you have done leading up to it. And even after all that hard work, you are still left at the mercy of their response. It seems like a waste of time and energy, doesn't it?

Well, that is exactly how the process of raising money for expensive projects went until a few years ago. Traditionally, extensive real estate projects were for the wealthy because they were the only ones who could open their wallets and purses and make capital contributions of almost ridiculous

proportions. Regular folks like you and I could only watch from the sidelines as the rich got richer by investing in these mammoth projects.

Now, however, the game of raising capital has changed incredibly, thanks to upcoming strategies like crowdfunding. In this chapter, I want you to familiarize yourself with the intricacies of crowdfunding as a modern and viable technique for raising capital for your dream project.

REAL ESTATE INVESTING TIDBIT

The global crowdfunding market was valued at $151.9 billion in 2021 and is projected to expand to $1351.1 billion by 2030 (Report Ocean, 2023.) To say that it's growing would be a gross understatement. The question is—are you ready to grow with it?

SOMEONE LIKE YOU

Sam entered the real estate game way back in 2003 in the conventional way. He loved the real estate asset class so much that he decided to create an investment system that would keep generating passive income for him. While he is happy with the traditional method of doing things, he believes that the online crowdfunding world has been a massive game-changer. He made his first crowdfunded real estate investment in 2016.

Today, he earns more or less $100,000 a year in passive income from crowdfunded investments and about $380,000 a year total as passive income from his entire real estate portfolio. What does he do with his time if all this money comes in passively, you ask? He spends time with his family, takes care of his baby boy, plays tennis, and writes financial articles to help new investors find their way in the investment world. That is a pretty good life, wouldn't you say?

CROWDFUNDING YOUR WAY TO SUCCESS

Until a few years back, a developer of any real estate project could only reach out to his network of investors to raise capital; this was changed only by the JOBS Act of 2012, which lifted this restriction. The developers can now advertise openly to raise money for their projects through, let's say, the Internet. The audience is not a few grumpy old rich people—it is anyone and everyone who can access the Internet. Having said that, crowdfunding as a process is not as simple as posting an ad. Let's see how this works.

If you check out sites like MLS or Zillow, you will find that entire properties are listed for sale. Crowdfunding websites work a little differently. These websites do not put up real estate deals directly. Instead, they allow investors to buy shares in a company that takes up real estate projects. So, suppose you wish to raise capital for a specific deal or, in crowdfunding terminology, become a sponsor. In that case, you will need to form a separate entity that carries out the project-related activities and then register this company on a crowdfunding platform. Of course, crowdfunding platforms are heavily regulated, and companies must submit to strict scrutiny before advertising a deal; this sounds a lot like REITs, but the major difference is that in the case of REITs, the company may take on several real estate activities and the investor has no clue as to where the money is invested. Crowdfunding projects, on the other hand, provide investors with transparency, as the investors' money functions as raised capital for specific projects that are advertised. They are also different from REITs in the liquidity they offer—while REITs

are more liquid, your investment in crowdfunded projects is locked in for three to five years.

Before going forward, I wish to distinguish between sponsors and investors to make sure everything is clear. From here on out, whenever I refer to a "sponsor," I am referring to the individual trying to raise capital for their project. The term "investor," on the other hand, refers to the people who help by investing their funds into the project. I will clarify the role of these two participants in the crowdfunding process a little later; until then, for the purpose of our discussion, remember that you are the sponsor, while investors are the people from whom you are asking for the funding.

Many crowdfunding platforms have come up in recent years, and each may have minimum investment requirements ranging from as little as $100 to as much as tens of thousands of dollars. The most popular and efficient crowdfunding websites that I have come across are as follows:

- CrowdStreet
- Fundrise
- EquityMultiple
- PeerStreet
- RealtyMogul

While CrowdStreet tops my personal list, I find that Fundrise is more beginner-friendly. There are many more out there, and it is up to you as the investor to make sure you do your due diligence regarding the background of these platforms. Moreover, it is crucial that you extend this due diligence to the specific project you are considering investing in. As an investor, you will need to consider all the factors impacting property prices that we discussed when looking into real estate

investment strategies—demand and supply for properties in that market, the influx of people due to employment opportunities and infrastructural developments, etc.

These are also the same factors that you, as a sponsor, would look at in order to determine the viability of the project. For instance, there would be no point in considering developing an apartment project in an area where apartment properties are already in excess supply. If landlords in that area are having difficulty filling the vacancies on their properties, it indicates that supply exceeds demand in this area. It would be better to hunt for the perfect deal elsewhere.

The Parties Involved

The process of crowdfunding is slightly more complicated than just posting an ad for funding. As with all other real estate transactions, here there are several checkpoints that a prospective deal goes through as well. A better understanding of these checkpoints is necessary for you to know what to expect. Any crowdfunding deal primarily involves two parties —the sponsor and the investor. Rather than simply looking at the process in a stepwise linear fashion, I want you to see what a crowdfunding deal would be like for each of these parties.

The Sponsor

You may often hear sponsors called by other names, such as developers or operators. They are the ones who are raising capital for a specific project. Simply put, the sponsor is the one who does the majority of the weightlifting. Think of all the tasks you would have to complete if you were buying a property yourself—starting with finding a good deal, running the comps, crunching the numbers, negotiating with the seller, conducting due diligence, and going all the way down to completing all the contract formalities, and so on. This process

remains exactly the same in the crowdfunding scenario. Essentially, as the sponsor, you execute all the minute details of a property development plan. Once you find the prospective deal and create a budget for the project, it is time to set about finding investors to fund it.

In order to understand the sponsors' exchanges with their investors, let's consider the whole process as being divided into two stages—before and after the formal purchase commitment. Before committing to buy the property, you must ensure that all the due diligence requirements are met. You may put up the earnest deposit as token money to take the deal off the market until the formal written commitment goes through.

In most cases, you will only invite the investors after formally committing to the purchase of the property. However, some sponsors bring in investors even before this formal commitment. In these cases where the property may not have been fully acquired yet, it is the sponsor's responsibility to reassure the investors that their investments are safe. Here, it is also prudent to let the investor know what measures will be taken to ensure the protection of their funds in case the deal does not go through for some reason.

In addition to the effective execution of the business plan, you will also need to pay attention to the crowdfunding platform you are using. While there are many platforms out there, not all are good at what they do. Therefore, it is your responsibility to find one that best suits your needs. Moreover, if the platform is highly competitive (as it should be), you may have difficulty getting the project approved for the platform marketplace; this can take several months for a thorough review by large lenders and investors. This scrutiny often

continues even after you have been approved as a sponsor and may extend to each posted deal.

A convenient alternative to this is your own social media. Using your Facebook, Twitter, Instagram, or Youtube to advertise deals allows you to directly reach your target audience, thereby eliminating the need for third-party platforms. I usually do not recommend rejecting these crowdfunding platforms outright because the good ones do come with a level of credibility and trust that they have established with many investors. However, if you have been able to build a solid online presence with a high-value and trustworthy brand for your target audience, then you may do well on the credibility all by yourself.

The Investor

An investor in crowdfunding is the one funding the project rather than developing it. Since they do not directly control the activities undertaken, their primary task—besides investing money—is to ensure that the sponsor is doing a good job; this is somewhat like a supervisory responsibility to double-check all of the sponsor's financial as well as perceptual assumptions relating to the project. The mostly hands-off approach of crowdfunding often makes investors feel like they are off the hook, as if they have entrusted their money to someone else, and it is not their responsibility anymore. However, most of them rarely understand that, in most cases, they are taking almost the same amount of financial risk as the sponsor.

While it is true that crowdfunding has created opportunities for all investors that were previously unthought of, these opportunities still come with certain terms and conditions. Not all investors are created equal. You will often come across the terminology that denotes important distinctions between these

different investors. There are many ways to classify them, but here is one classification that you will see the most in the crowdfunding context:

- ***Accredited investor:*** An accredited investor is a large-scale investor formally recognized by the SEC. You will have to fulfill specific criteria to become accredited. SEC requires that the investor must have a net worth of more than $1 million, excluding their primary residence, and at least $200,000 in individual or $300,000 in joint income. Furthermore, they must possess SEC-recognized qualifications, designation, and experience. In a nutshell, beginner investors do not qualify to become accredited.
- ***Sophisticated investor:*** This is also an investor with a high net worth and a bulky annual income, but they are not necessarily accredited. They possess a high level of experience, knowledge, and skills but may not meet the exact SEC criteria.
- ***Non-accredited investors:*** These are simply the investors that neither meet all the above criteria for accreditation nor do they yet possess vast knowledge regarding investments. Most of the investors you meet will most likely fall into this category.

When it comes to crowdfunding platforms, they are primarily geared to suit the needs of accredited investors. While sophisticated and non-accredited investors can and do still participate, accredited investors have a far wider net of opportunities to fish from. Accredited or not, it is important for investors to realize that they are the sole guardians of their wealth, regardless of whether it runs in millions. No matter how small the amount invested, it is the investor's

responsibility to ensure they have the maximum possible information regarding the deal.

It is also of relevance to the investor to note that crowdfunding projects generally come in two forms:

- ***Equity investments:*** Much of real estate crowdfunding involves equity investments; this means that the investor purchases a stake in the project with their investment as they would with the stocks of a company. They then receive a share of the profits this company earns, whether it sells or rents the property.
- ***Debt investments:*** In real estate, debt investments work the same as bonds and treasury bills. Essentially the investor becomes the lender to the sponsor and acts as a bank would. They have no equity in the property and do not receive a share of profits, but they are promised a fixed rate of return at regular intervals. This rate depends on the amount they have invested as well as the rate of interest on the loan.

While equity investments are always the preferred form in real estate crowdfunding, they both bring their own sets of pros and cons for the investor. Equity investments have a greater potential for returns and are also eligible for tax breaks for owning real estate. On the downside, they also mean greater risk and a longer lock-in period for the investor’s funds. On the other hand, debt investments offer steady income that is relatively low-risk but has quite a restricted growth potential.

In many cases, a sponsor may choose to enlist mixed financing for their project by involving a third party in this crowdfunding parade—the lender. If they are at all involved,

they carry the least amount of risk in the deal. After all, if the project fails, they can always seize the property and get their money back by selling it off. I will not go over the lending details again since we have already discussed them. But just to underline the obvious, in the case of these mixed financing projects, finding a good lender with reasonable terms and conditions is as crucial as raising capital from your investors.

Pros and Cons of Real Estate Crowdfunding

More and more real estate investors are opting for crowdfunding, and the reasons are obvious. When crowdfunding arrived on the scene as a new technique of raising capital, it was considered to be a big-fish venture. It seemed that only large developers could collaborate with large accredited investors to create very large projects which the ordinary investor could not participate in. Now, however, things are changing, and small sponsors are also racing in to have a slice of the crowdfunding pie. Currently, many small-time projects are being crowdfunded by small investors.

The Pros

So, what drives the popularity of crowdfunded projects? Well, it is simple, really—crowdfunding offers convenience and efficiency, all wrapped up neatly into straightforward advantages.

The first and the most obvious is the ease with which developers can raise money. The whole process takes place online, and you are not required to contact prospective investors separately. For instance, you can simply do a webinar from the comfort of your home or office, the invite for which can be sent to all your investors at the click of a button. These webinars can be designed to be as interactive as you

would like them to be, complete with a Q&A session to address the investors' concerns.

Crowdfunding also makes it easier for developers to build a business system. The developer does not use up their own credit to begin a business venture. Remember that even if your personal credit helps you raise capital, as we discussed before, using it up for one project might hinder you in many areas of your personal life. Moreover, it may be of little help when the volume of your deals increases and you need more and more capital. Crowdfunding nips the capital problem right in the bud by attracting independent investments for each project separately.

Another tremendously useful aspect is the level of interaction crowdfunding encourages between the sponsors and their investors. The fact that both sponsors and investors are connected online means that people tend to be quite forthcoming with their feedback, especially negative comments. Some may consider this to be a nuisance, but within certain boundaries, the criticism can be quite valuable for quality checks. In fact, encouraging honest and open but respectful conversations on these online forums can be quite helpful for sponsors in finding areas to improve their business model. Even if the criticism may not be practical, thanking the investors for their input makes them feel heard and respected; this can certainly lead to much stronger connections and even higher loyalty. This loyalty must then be nurtured with transparency and consistency. You better believe that loyal investors will go the extra mile to help you succeed, even if it is by simple word-of-mouth marketing.

Lastly, crowdfunding lends itself extremely well to enhancing your online branding. By using this tech-savvy and updated means of reaching them, you tell them that your services are

adaptable and focused on bringing them the best returns. Consequently, your online brand and crowdfunding campaigns strengthen each other and make for an excellent marketing strategy.

The Cons

Crowdfunding is, without a doubt, a great strategy to gain access to considerable funds. However, if you are considering this strategy to raise capital for your next project, I strongly recommend you also pay attention to the disadvantages. Remember that these disadvantages will impact you primarily through your investors. By that, I mean that these limitations make the investors hesitant to invest in your venture and can therefore influence the capital you raise.

For instance, many investors may not like passivity; this is true, especially for many real estate investors who wish to invest in specific properties. They like being able to control their investment in some way. However, with crowdfunding, they need to give up their control fully. Unless they really trust you and your ability to give them returns, they may not want to invest money in your project. In these cases, it is important to allow investors as many opportunities to raise concerns as possible and then address those concerns with evidence-backed factual information.

Investors' hesitation may also be due to the long-term nature of these projects, which means they may not see the returns on their investment for years. The uncertainty about the crowdfunding process as a whole and the anxiety of handing their hard-earned money to an investor they do not know personally can be daunting. Convincing them may prove quite difficult, thereby stalling your fundraising campaign.

Lastly, even if you do manage to build trust and your investors are eager to invest, the SEC regulation may prevent them from putting in a significant amount; this would specifically apply to you if you are a small real estate company owner approaching small non-accredited investors. A non-accredited investor with a yearly income of less than $107,000 can only invest 5% of their total income, with $2200 as the upper limit for that investment. Those with an annual income of more than $107,000 can invest 10%, with $107,000 being the upper limit. These restrictions severely hamper your investor's ability to invest enormous amounts of money; this, in turn, makes it absolutely necessary that you convince a much larger number of investors—and that is no easy task!

KEY TAKEAWAYS

Regardless of whether or not you think it, crowdfunding is for you. It is undoubtedly worth your time to at least consider this option. Here are some points to help you:

- The people raising capital are called “Sponsors,” and those putting in the money are “Investors.”
- Crowdfunding sites like CrowdStreet and Fundrise can be a great starting point for first-time crowdfunding sponsors. They can even use Facebook and Twitter to reach prospective investors.
- Crowdfunding platforms usually give more investment opportunities to accredited investors with high net worth, while non-accredited investors can only invest a limited amount of funds. Someone with an income less than $107,000 cannot invest more than 5% of up to $2,200.
- Investors can invest in two types of crowdfunding—debt and equity. In debt crowdfunding, the investor performs the role of a lender who receives a promised interest rate at predetermined time intervals. In equity crowdfunding, the investor is a shareholder in the project and earns a share of its profits.

9

ANGEL INVESTORS

> *"I look at two things while angel investing. Are you solving an important problem? Do you care about the end users?"*
>
> — GARY VAYNERCHUK

With start-ups booming everywhere, the masses have become quite familiar with the term "angel investor." Add to that the popularity of reality TV shows that invite entrepreneurs to be offered deals by big names in various business niches, and you have business concepts becoming a matter of household conversation. But minus the guilty pleasure of the drama we all love occasionally, there are still many misconceptions about angel investing. In this chapter, I want to address these myths and talk to you about how angels can take you to real estate heaven.

REAL ESTATE INVESTING TIDBIT

In 2021, over 69,000 start-ups received a total of $29.1 billion, a figure that has been on a constant rise over the years (EBAN Team, 2022). The number of angel investors has also significantly increased over the last few years. If you plan to start your own real estate business, an angel investor might be just what you need.

SOMEONE LIKE YOU

Jonathan Wasserstraum was studying business management when he and his friends self-funded SquareFoot, an online marketplace for commercial and office spaces. Jonathan had previously worked with a company called JLL and had a very basic and superficial understanding of how real estate markets worked. As SquareFoot operations expanded, Jonathan realized that raising capital was a necessity. SquareFoot has managed to raise $30.2 million over eight rounds of funding from a variety of angel investors and venture capital firms. Over the years, he himself has been an angel investor for over 30 deals in the property technology space, often shortened to the prop-tech space. Associating with angel investors has led him to believe that working with angel investors can be incredibly beneficial, especially for the expertise that they bring to the table. As an angel investor himself, he loves the exchange between his expertise in prop-tech with the expertise of owners of new ventures in single and multifamily space. In a BiggerPockets podcast (2020), he briefly summarizes his advice to new businesses looking for funding: “If you want money, ask for advice. If you want advice, ask for money.”

The first thing you need to understand is that anyone who provides you with capital does not do so out of the goodness of their heart but for business gains. Of course, your friends and family might be an exception to this. But overall, be it a lender, the government, or an investor, everyone expects certain returns. And for you to gain access to funds, you need to give each of these exactly what they need. The lender is more or less concerned about getting their money back *on time and with interest*. The government may be looking for certain kinds of community development. And investors are looking for high returns, but there are several types even among these.

Angel investors are usually high-net-worth individuals who invest money and may even lend their expertise to a business owned by someone else. It is more common for an angel investor to enter the scene in the early stages of the development of a business rather than later. They are usually certified by the SEC as accredited investors and have no restrictions on the amount they can invest; this is not mandatory but may make them more credible to business owners.

On the other hand, venture capitalists are those who work for a venture capital firm where they invest the money given to them by others. These firms are typically structured as limited partnerships where the limited partners bring funds that are then invested into businesses. The partners then receive returns proportionate to their share of funds. VCs often tend to come in after angel investors have "discovered" the company.

While both are in the game for equity in a profitable business, the way they function is widely different. The angels are mostly content with giving you constructive feedback now and then while earning high returns. They likely prefer to be hands-off. The VCs, however, may become the proverbial sharks, demanding more and more control over business operations, essentially taking away your decision-making power. Whether it is an angel investor you are working with or a VC, you need to be extremely clear about why you bring them in. Without this clarity, you may be pushed into a direction the sharks desire rather than what you want.

Note that angel investors do not always have to be the big names; sometimes, you may find these angel funds much closer to home in the form of friends and family. These people may invest in you because of your relationship with them more than anything else. As in the case of private lenders, if you do not have access to funds from your loved ones, then you will have to start your angel hunt outside your social circle.

Traits to Look for in Angel Investors

Many investors make the mistake of grabbing capital from *any* source possible. “Money is money after all,” they say. Only in the long run do they realize the pitfalls of their attitude. There are a few must-have characteristics that you should look for in your angel investor:

1. ***Experience and expertise:*** The best part about having an angel investor is that they bring with them not just funds but a wealth of knowledge and experience that you, as a business owner, can greatly benefit from. For this to happen, however, you need to ensure that they know your business, your market, and the world of investing well enough. For instance, a first-time investor from the IT sector may not be much help to your real estate business.
2. ***Calculated risk-taking:*** Angel investors, by default, love to take risks. That is why they are considering working with your sapling of a business. However, you need to be sure that their risk-taking does not stray into recklessness but remains calculated. Take a

look at their past investments, and you will get a general idea of their approach. In the long run, a reckless angel investor can do more harm than good by pushing you into much riskier avenues than are appropriate for your risk appetite.

3. ***Realistic and pragmatic approach:*** Most investors become angels to get the highest returns with minimal involvement. They are usually looking for start-ups that can grow quickly and make it worth their time and money. However, real estate is more of a long game, and a quick and massive rise is not always possible. An angel investor who is getting impatient and has unrealistic expectations can drain your motivation. Finding an investor with realistic expectations that align with your business plan should be the primary focus of your angel hunt.
4. ***Mentoring:*** This is somewhat subjective but can prove to be a crucial turning point for your growth. An angel investor who is willing to engage in at least some hand-holding can make for a fulfilling learning experience. Remember that not all investors will do this or are even interested in doing it. If this is something that you wish to gain out of your interaction with the investor, then you must put it out there right from the beginning and assess your potential investor accordingly.
5. ***Financial strength:*** This one should be obvious but is overlooked more often than you would expect. Many simply accept the funding without giving a second thought to whether the investor's financial stability will be impacted in the process. You might wonder why that should bother you because you already have the funding you need, right? Because, more often than

not, if the investor is not financially stable, they tend to expect quicker returns, and that is a stress that you can do without.

Along with all of these, the one factor determining the success of your association with an angel is the mutually trusting relationship you build with them. Take that out of the equation, and none of these would really matter.

Getting Into Action

Once you know exactly what it is you are looking for, searching for it becomes much easier. That being said, you still need to follow a few pointers to ensure you are on the right track.

- ***First, go local:*** Though you might be hoping for a Mark Cuban or a Laurie Greiner to invest in your business, waiting for the big investors will likely mean you will be waiting for a long time. Instead, a much better option would be to search for your angel investors locally. Many angels, though hands-off, may be looking to invest in a business they can see growing right before their eyes, and these investors in your local community can be an excellent opportunity to raise capital. You should check the colleges in your area as they may have an angel investor network that supports businesses started by new graduates. You can even look at several investor databases available online.
- ***Network, network, network:*** This is another place where your networking superpower can be put to good use. Talk to your friends and family, look up your social media network, or talk to other real estate

entrepreneurs to find references. Remember that networking will not yield immediate results. Meeting professionals who can give you the necessary connections can take months. Be patient and persistent, and you will get there slowly but surely.

- ***Be on the lookout for angel investing syndicates:*** Angel investors do not always go solo on their deals. You will often find that they participate in syndicates with other investors. These syndicates allow them to pool their money to make more extensive investments while also mitigating their risk. Be sure to take advantage of these groups in your search for investors.
- ***Use the virtual connection:*** No matter what you do, do not underestimate what the internet can do for you. Currently, there are several online platforms that help you connect with the right investor. All you have to do is post your business plan on these websites, and interested investors will contact you directly. Alternatively, you can look up the investors on these sites with whom your business niche matches. Here are a few platforms that you should check right away:

1. AngelList
2. Angel Capital Association
3. Angel Forum
4. Gust
5. Angel Investment Network

Each of these can give you access to thousands of investors who are simply waiting for the right pitch, which is exactly what you need to be prepared for.

What Angel Investors Want You to Know

Just as you are evaluating the investor, the investor is also evaluating you. The perfect pitch is not just about presenting your business to an investor but about getting them excited about what you do. Here are a few things your potential investors want to see in you:

- ***Grit and drive:*** No investor wants to invest in a business that you do not seem passionate about yourself. Angel investors want to know that you are financially, physically, and emotionally invested in your business. Belief and conviction are often contagious—if you have them, others will have them in you too.
- ***Clarity about the business:*** Conviction without clarity is plain wishful thinking. When you make your pitch, you need to know your business and the market like the back of your hand. Even though the investor may be able to guide you at certain points, they will rely mainly on your knowledge and expertise to get high returns from your business. You want to be prepared for questions such as:

1. What differentiates you from the competition?
2. What are the current trends in the market, and how are they expected to change a few years from now?
3. How would these changes impact your business, and what solutions will you design to avoid a negative impact?

With these answers, your investor can gauge whether there is enough traction in the market for them to invest.

- ***Understanding the numbers:*** They say, “Proof is in the pudding.” Well, for investors, the proof is in the numbers because numbers do not lie. In your pitch, you want to exhibit a strong and disciplined understanding of figures such as cash flow, the market value of properties, top-line/bottom-line, projected revenue, budgets and profits, average property acquisition costs, and so on. If the investor wants to know some uncommon figures that you do not have when presenting, you should always be honest and tell them that you do not currently have the numbers, but you will get them to them as quickly as possible. By no means do the investors want to see you wing it.
- ***Openness to feedback:*** While investors certainly want you to have conviction, they do not like it when that conviction turns to stubbornness or arrogance. They want to know that every once in a while when they give you some feedback regarding possible improvements, that feedback will be taken seriously. Of course, there may be disagreements, but you need to ensure that your stand comes from evidence-based facts and not your ego. After all, you and the investor are both on the same team.
- ***A genuine connection:*** Angel investors often invest in the entrepreneur just as much as (if not more than) the business—and it is your job to show them you are worthy of their time and money. Many entrepreneurs tend to put up a fancy front when pitching their deals but know that investors are often persuaded by authenticity. That being said, you may have to modify your presentation for different audiences. Your research will tell you what they are looking for from their investments. You want to ask yourself how you

can align your business with projects they are likely to invest in. When all is said and done, showing the investors that you really are worth them taking a risk on is all your pitch is really about.

Pros and Cons of Raising Capital from an Angel

Like all the other methods, angel investing as a means of raising capital also comes with its own pros and cons. The biggest advantage is that investing in start-ups is not a problem for them—if you present your business as a good opportunity, then they will be willing to bet on you. Moreover, apart from capital and expertise, they also bring to the table their vast networks, which can be an asset in itself for your business. These investors also often provide new entrepreneurs with other valuable resources like an efficient team, a space for business operations, etc. Lastly, the fact that you have been able to raise money in a competitive real estate market tells other investors, as well as your clients, that you are running a credible project.

On the other hand, angel investors do not invest for free; they are in it for the money. The more investors that give you funding, the less of your company you own; this means you have less control of the company. Unlike the glamorous million-dollar deal on TV, you might also find that angel investing is generally limited to much smaller amounts. It is also unlikely that you will have all the choices in the world to pick from in order to get the best angel—if you desperately need funding, you will likely have to go with whoever is willing to give you the money.

I often suggest to new investors not to wait till desperation strikes—it leads you to the worst possible decisions. Instead, anticipate these circumstances right from the start of the

process of raising capital, and you will be much better equipped to deal with tough times.

KEY TAKEAWAYS

Finding the right angel investor is a challenging task; if their approach does not mix well with yours, then it can feel like you are moving backward in your journey.

- It is crucial that you clarify the amount of control, both in terms of equity and decision-making, that your investors will have.
- Angel investors often look for quick, high returns, so you need to adjust their expectations before you go into business with them.
- Use online platforms like AngelList, Angel Capital Association, Angel Forum, Gust, and Angel Investment Network to reach investors.
- Build and strengthen your network as a means to get references for local investors.
- Have clarity regarding how much of the company's ownership you are willing to give away.
- The best pitches are informed ones, so you should have clear facts and figures about the market, show an innate understanding of the current and future trends, and exhibit conviction as well as the willingness to take feedback and improve.

Help Me Spread the Word

You're at the beginning of a very exciting journey… and that puts you in the perfect position to help someone else begin theirs.

Simply by sharing your honest opinion of this book, you'll show other hopeful real estate investors where they can find all the guidance they need to get started.

Thank you so much for your support – and all the very best with your endeavors.

>>> Click here to leave your review on Amazon.

CONCLUSION

Before we conclude this book, I want you to acknowledge how far you have come—you are not the same hesitant newbie you were when you began reading this book. I want you to appreciate yourself for all the knowledge you have acquired up to this point. As I tried to condense all my years' worth of learnings in this book, I realized what a daunting task it was; and it was no less of a chore for you to absorb it either. Now I will leave you with my top three learnings that are not related specifically to real estate and yet have made all the difference for me, my success, and, more importantly, my well-being.

#1 Value people.

We do not acknowledge this enough, but I have learned that people are the most valuable currency you can earn. Whether it is business or your personal life, make sure you surround yourself with people who love you, inspire you, and are ready to catch you when you fall. It is impossible to be in the real estate business and not go through a few dips in your career. It is these people who will help you come out of that spiral, so keep them close and make time for them, no matter the business demands.

#2 Keep innovating.

The world that we live in is evolving at an unreal pace. Anyone who wants to sit pretty on their throne and not adapt will undoubtedly perish—sooner rather than later. No matter how successful you are, the only way to survive in this ever-changing world is to keep reinventing yourself. For a long time, it was believed that offline exchanges were how people liked to do business in real estate. Look at how that assumption has been turned around with apps like Zillow! All it takes is one person to swim against the current, and the entire business can change way too quickly. Anticipate and prepare for change; that is the only way to thrive in this part of town.

#3 Believe in yourself.

I know it is the world's oldest cliche, but remember that it became one for a reason—because it is true, without any exceptions. If there is one thing that the real estate world has taught me, it is that if you do not put yourself out there with the utmost conviction, then no one—and I mean no one—will take you seriously. If you are confident about what you want and how to get it, then that is all people will care about. Also, people often talk about confidence and humility as if they are at opposite ends of the spectrum. If you ask me, I believe that someone who has put in the hours and burned the proverbial midnight oil knows and understands that their knowledge is limited. Their confidence in what they know invariably brings in humility about the largely unknown world out there, and they are not afraid to admit it. That is what keeps them going in their quest for knowledge.

These underlying principles have guided my real estate success, and I hope they will do the same for you; moreover, I hope you add to them in your own journey.

Through this book, I am sure you have understood at least some, if not all, technicalities of raising capital for real estate. It is now time to get started with some practical implementation—get going with the investing strategy that you really liked or start meeting with people who can help you with your preferred fundraising strategy. Remember that the best time to do something great is now, and the best person to do it right is you! So, go on out there and get started.

If you found this book helpful, leave me a review—it will help me reach many more hesitant investors and lift some of the confusion from their minds. As for your real estate adventure, I wish you all the strength, courage, and confidence to make your dreams come true because luck has no place in the journey of a successful real estate investor!

A REAL ESTATE DICTIONARY FOR INVESTING TERMS

Here is a handy reference for you comprising some of the most common terms in real estate so that they will not throw you off when you hear them.

- **CMA:** Comparative market analysis is a report about all market listings—currently active, sold, expired, or simply taken off.
- **CRE:** Commercial real estate differs from residential real estate and includes income-producing properties like condos, office spaces, etc.
- **Cap rate:** Capitalization rate is the ratio NOI to the price at which the property was purchased.
- **CapEx:** Capital expenditures refer to the major expenses that are undertaken to ensure the safety of tenants and the effective functioning of equipment in the property, such as roof replacement, heating, ventilation, and air conditioning (HVAC) system replacement.
- **Cash-on-cash return:** This percentage figure is calculated by dividing the cash flow before taxes by the total amount invested.
- **Debt-to-equity ratio:** This is the ratio that helps you determine your equity in the property as compared to

the debt owed—the lower the ratio, the better.

- **Escrow:** This is a contractual agreement that allows an impartial third party to hold the investor's down payment in a separate bank account until the deal closes, which it then disburses to the seller.
- **FMV:** Fair market value is the reasonable valuation of a property at a certain time.
- **GRI:** Gross rental income is the total income from the property, including rent and any other fees paid, like those for parking, application, etc.
- **GRM:** Gross rental multiplier is the amount of time it will take to pay off the loan with the rental income, i.e., purchase price divided by rental income before expenses are paid.
- **Gross rental yield:** This is the total property income divided by the total price paid, including closing costs.
- **IRR:** Internal rate of return is an evaluation metric that helps investors rank potential investments based on profitability.
- **NAR:** National Association of Realtors is the largest trade association in the US for members of the real estate community.
- **NOI:** Net operating income is used to determine asset profitability and is calculated by subtracting the operating expenses (except mortgage) from the revenue generated.
- **PITI:** This is an acronym for all components of a monthly mortgage, namely principal, interest, taxes, and insurance.
- **RTO:** This agreement allows a tenant to buy the property before the lease is over by putting up a part

of the payment as rent and another part credited toward purchasing the house.

- **Turnkey properties:** These are ready-for-possession properties in which people can directly move in.

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