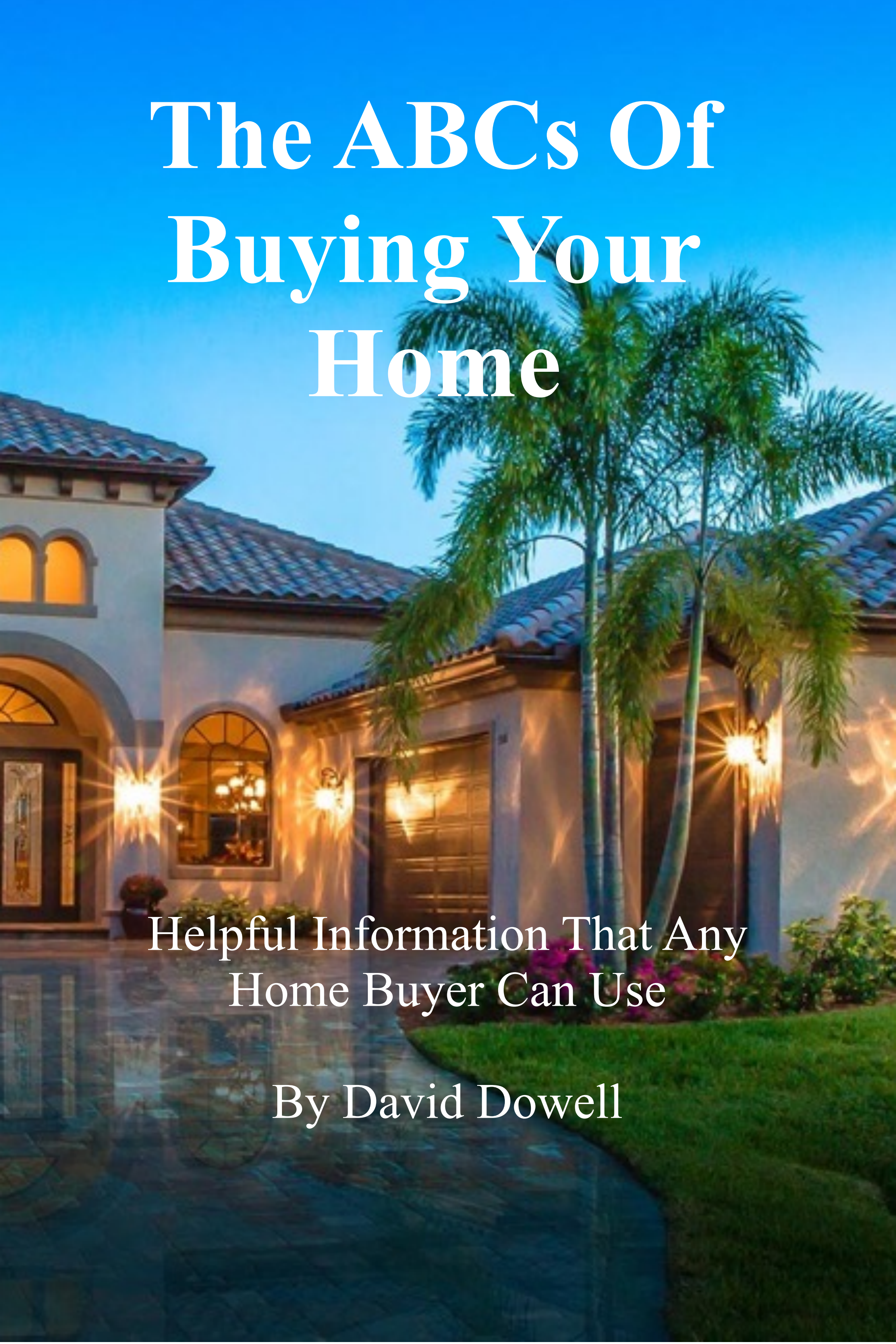
The ABCs Of Buying Your Home



Helpful Information That Any Home Buyer Can Use

By David Dowell

The ABC's of Buying Your Home

by

David Dowell

Table of Contents

Chapter 1

About The Author

David Dowell is a Real Estate Broker and Attorney at Law in Orlando, Florida. He has written this book to help prospective home buyers maneuver through the home buying process and to buy their homes for low dollars fast.

David has laid out the top home buying steps and strategies inside this book for you to use.

If you don't have time to implement them yourself, then you can hire David to implement them for you.

David is a resident of Windermere and has lived in the Orlando area for nearly 25 years. As a graduate of the Indiana University School of Business and Indiana University School of Law, he has knowledge of all the legal aspects of real estate transactions.

David is able to assist you with the search, selection and purchase of your home, the search for any clouds or liens on title, legal contracts, and all steps through the final closing - and beyond. With all the complexities and legal pitfalls in today's real estate market, David's legal background is a necessity to successfully purchasing your ideal home for the lowest dollar with no headaches or legal sinkholes. He also has exceptional attention to detail.

David loves the Orlando area and is familiar with all of the local neighborhoods - both traditional homes and vacation homes. He puts a special emphasis on international relations, knowing that foreign residents make up a large percentage of today's buyers.

In his free time, David likes to play golf, coach little league baseball and travel. He is happily married to his lovely wife Jackie, originally from Peru, and has two energetic 5 year old twin boys.

David owns Pan Am Real Estate LLC and Dowell Law, P.A. , and can be contacted by phone/text at (407) 864-2265 or by email at david@PanAmOrlando.com.

Chapter 2

The Home Buying Process

If you're like most people, buying a home represents your single biggest investment – and debt. As such, the home buying process can be one of the most exciting, but sometimes also stressful, experiences you ever go through.

This may be true whether you've bought many homes or you're looking to buy your first, whether you're in the market for a new primary residence, an investment property or that perfect vacation getaway.

Generally, finding and purchasing a home includes the following steps, some of which are examined in more detail throughout this book:

Define Your Goals and Research Your Options

Given that buying a home is such a big step, it's all the more important for you to educate and prepare yourself as much as possible in advance. This means clearly determining what kind of home you're looking for, examining your current financial situation and projecting how much you can afford.

How big of a home do you need? Do you need to live in a top rated school district? How much can you pay per month, including principal, interest, taxes and insurance? Do you need to live close to work or a major road? Will this be your home for many years or will be moving again in a couple of years? Do you anticipate that your family will grow?

Once you've answered these questions and others, even tentatively, you'll be in a better position to research your housing and mortgaging options. You may want to do this yourself, but you may also benefit by consulting an experienced real estate professional right from the start.

2. Hire Professional Help

Buying real estate is a complex matter in the best of times, given that there are so many factors to consider and no two homes or transactions are alike.

What is the price per square foot for other recent sales in the neighborhood? Does the seller have good title to the property? Are there any liens or encumbrances? Does seller have any contingencies? Are there any deed restrictions for the home? Does the neighborhood have any restrictive covenants?

However, with all the unique opportunities and potential pitfalls of the current market, it's even more important for you to contact a real estate professional and a attorney once you've definitely decided to buy. These professionals will guide you through the property search, financing, negotiation and transaction process.

3. Get Pre-Qualified for a Loan

Generally, it is recommended that you get pre-qualified for a loan before you start viewing homes with the serious intention of buying. The pre-approval process involves contacting a lender or mortgage broker and authorizing them to examine your current financial situation and credit history.

On the basis of this examination they will provide you with a document that details how much you can borrow to buy a home. This normally can be done by phone and email. Many sellers today will require a copy of a pre-approval letter be provided along with an initial offer, to confirm that the buyer is legitimate and actually has the ability o buy the home.

4. *View Homes and Select* THE ONE!

The key to the process is to know what you are looking for, understanding the property features and values, and understanding the legal ramifications. Your Realtor and Attorney will help you understand these. Most buyers know what they want after seeing just 2 or 3 homes.

But don't be afraid to ask to see the home a second time before making your offer. I recommend to my clients that they return for their second visit to the house with a camera and measuring tape in hand!

5. *Make an Offer and Negotiate with the Seller*

Now that you've found the home you'd like to buy, it's time to make an offer. Your Realtor and Attorney will provide contracts. These contracts enable you to specify a sale price and also include many clauses for specifying various terms of purchase, such as the closing and possession dates, your deposit amount, and other conditions.

In addition to drawing up the contract, your Realtor and Attorney will address all your questions about the offer process. They will then present the offer to the seller and negotiate a final agreement.

6. *Get a Home Inspection*

Typically, purchase offers are contingent on a home inspection of the property to check for signs of structural damage or things that may need fixing. You can't always see everything in a home, so get an expert to tell you what you can't see. Your Realtor will help you arrange this inspection within a few days of your offer being accepted by the seller.

This contingency protects you by giving you a chance to renegotiate your offer or withdraw it without penalty if the inspection reveals significant material damage. You should also make sure that your offer contract allows you to get back your security deposit if there are major problems that can't be resolved and you have to cancel the contract.

7. Secure your Financing

Once you have a pending agreement, it's time to go back to your chosen lender to finalize your mortgage details so you can close the deal. This means finalizing your down payment, interest rate, regular payment schedule and any other financial conditions associated with the closing.

8. Conduct the Closing

If you've taken care of everything connected with purchasing your new home, the experience of taking ownership will be a positive joy with no surprises. This is where the value of having an Attorney on your team is immense. He will insure that all legal documents are in place. At closing, you will sign all of the paperwork required to complete the purchase, including your loan documents.

Chapter 3

Best Kept Secrets For Buying A Home

Buying Secret #10: Keep Your Money Where It Is

It's not wise to make any huge purchases or move your money around three to six months before buying a new home. You don't want to take any big chances with your credit profile. Lenders need to see that you're reliable and they want a complete paper trail so that they can get you the best loan possible. If you open new credit cards, amass too much debt or buy a lot of big-ticket items, you're going to have a hard time getting a loan.

Buying Secret #9: Get Pre-Approved for Your Home Loan

There's a big difference between a buyer being pre-qualified and a buyer who has a pre-approved mortgage. Anybody can get pre-qualified for a loan. Getting pre-approved means a lender has looked at all of your financial information and they've let you know how much you can afford and how much they will lend you.

Being pre-approved will save you a lot of time and energy so you are not running around looking at houses you can't afford. It also gives you the opportunity to shop around for the best deal and the best interest rates. Do your research: Learn about junk fees, processing fees or points and make sure there aren't any hidden costs in the loan.

Buying Secret #8: Avoid a Border Dispute

It's absolutely essential to get a survey done on your property so you know exactly what you're buying. Knowing precisely where your property lines are may save you from a potential dispute with your neighbors. Also, your property tax is likely based on how much property you have, so it is best to have an accurate map drawn up.

Don't assume that the property appraiser's website for a prior survey is correct. Get your own!

Buying Secret # 7: Don't Try to Time the Market

Don't obsess with trying to time the market and figure out when is the best time to buy. Trying to anticipate the housing market is impossible. The best time to buy is when you find your perfect house and you can afford it. Real estate is cyclical, it goes up and it goes down and it goes back up again. So, if you try to wait for the perfect time, you're probably going to miss out.

Buying Secret # 6: Bigger Isn't Always Better

Everyone's drawn to the biggest, most beautiful house on the block. But bigger is usually not better when it comes to houses. There's an old adage in real estate that says don't buy the biggest, best house on the block. The largest house only appeals to a very small audience and you never want to limit potential buyers when you go to re-sell.

Your home is only going to go up in value as much as the other houses around you. If you pay $500,000 for a home and your neighbors pay $250,000 to $300,000, your appreciation is going to be limited. Sometimes it is best to is buy the worst house on the block, because the worst house per square foot always trades for more than the biggest house.

Buying Secret #5: Be Aware of Sleeper Costs

The difference between renting and home ownership is the sleeper costs. Most people just focus on their mortgage payment, but they also need to be aware of the other expenses such as property taxes, utilities and homeowner-association dues. New homeowners also need to be prepared to pay for repairs, maintenance and potential property-tax increases. Make sure you budget for sleeper costs so you'll be covered and won't risk losing your house.

On the other hand, home ownership can provide tremendous tax deductions, possibly making owning cheaper than renting.

Buying Secret #4: You're Buying a House – Not Dating It

Buying a house based on emotions is just going to break your heart. If you fall in love with something, you might end up making some pretty bad financial decisions. There's a big difference between your emotions and your instincts. Going with your instincts means that you recognize that you're getting a great house for a good value. Going with your emotions is being obsessed with the paint color or the backyard. It's an investment, so stay calm and be wise.

Buying Secret #3: Give Your House a Physical

Would you buy a car without checking under the hood? Of course you wouldn't. Hire a home inspector! It'll cost about $300 but could end up saving you thousands. A home inspector's sole responsibility is to provide you with information so that you can make a decision as to whether or not to buy. It's really the only way to get an unbiased third-party opinion.

If the inspector does find any issues with the home, you can use it as a bargaining tool for lowering the price of the home. It's better to spend the money up front on an inspector than to find out later you have to spend a fortune.

Buying Secret #2: The Secret Science of Bidding

Your opening bid should be based on two things: what you can afford (because you don't want to outbid yourself), and what you really believe the property is worth. Make your opening bid something that's fair and reasonable and isn't going to totally offend the seller. A lot of people think they should go lower the first time they make a bid. It all depends on what the market is doing at the time.

You need to look at what other homes have gone for in that neighborhood and you want to get an average price per square foot. Sizing up a house on a price-per-square-foot basis is a great equalizer. Also, see if the neighbors have plans to put up a new addition or a basketball court or tennis court, something that might detract from the property's value down the road.

Today, so many sellers are behind in their property taxes and if you have that valuable information it gives you a great card to negotiate a good deal. To find out, go to the county clerk's office. Sellers respect a bid that is an oddball number and are more likely to take it more seriously. A nice round number sounds like every other bid out there. When you get more specific the sellers will think you've given the offer careful thought.

Buying Secret #1: Stalk the Neighborhood

Before you buy, get the lay of the land – drop by morning, noon and night. Many homebuyers have become completely distraught because they thought they found the perfect home, only to find out the neighborhood wasn't for them. Drive by the house at all hours of the day to see what's happening in the neighborhood. Do your regular commute from the house to make sure it is something you can deal with on a daily basis.

Find out how far it is to the nearest grocery store and other services. Even if you don't have kids, research the schools because it affects the value of your home in a very big way. If you buy a house in a good school district versus bad school district even in the same town, the value can be affected as much as 20 percent.

Chapter 4

First Time Home Buyers

Most people buy several houses during their lifetime. So chances are, your first home won't be your last. That means you should strongly consider the resale value of your home a few years down the road. Buying that first home is a big step and one that many people put off, out of fear of the unknown.

Think long-term and think re-sale: Are you planning to have kids? Will you be taking care of elderly relatives? You might be planning to live in your first home for only a few years. In that case, who is your target audience when it comes time to sell the house? If you buy a house in a very bad school district or a house on a very busy street, when you are ready to sell the house, most families with children will be out of your list of potential buyers.

Make a list of items to check: Home-buying is an emotional process. Ideally, you should set aside all your emotions when evaluating a house. Practically, that is impossible. Instead, make a checklist of your must-haves, nice-to-haves and other essentials. Then print copies of this checklist. Every time you visit a house, take the checklist along with you; take photographs so you can cross each item off your list. If you fall in love with the house and your checklist shows that the house has none of your must-haves, it will at least make you pause and think.

Look at ALL the expenses when you are budgeting for the house: When budgeting for the house, don't stop with principal, interest, taxes and insurance; add in utilities, cost of commuting and upgrades. Call the utility companies that service the house you are considering and ask for an estimate of what the cost will be, whether there are any budget plans available, etc. Will the gas budget for your car go up if you are moving further away from the places you frequently visit? Budget all of these expenses and see if you can still afford the house.

Ask for the homeowners association contract before you make a decision. If you are buying a house that is part of an HOA, it is absolutely essential to read the HOA contract before you do anything else. How much are the monthly association dues? Are there restrictions on paint colors? Can you park your boat or RV on the property?

Research grants and other sources of funding. There are many different options based on profession (grants for teachers, farmers, etc.) as well as the area of the potential house (whether it's in a rural area, high-poverty area, etc.). Research all the grants and funding options you are eligible for before you automatically decide you won't qualify for anything. Ask your mortgage broker as well.

Be sure to read your contract before you sign it. A house is probably the largest purchase you will ever make in your life, so make sure you understand the terms of your contract. If you don't understand any of the terms, ask your real estate agent or attorney to help you with this. It’s important that you do this! If your agent won’t, or can’t, explain the terms clearly to you, fire them! There are other qualified people who can.

Learn about the neighborhood demographics. If you are buying a house in a neighborhood full of renters, it only takes a few bad renters or bad landlords to drive the neighborhood down fast. If the neighborhood is full of single people, will you be happy there if you have very young kids?

If you like the view, beware. Be careful buying a view.. A neighbor in my neighborhood is at war with the county for approving a new development next to ours. The reason? There was a wetland and a nice view of a wooded area from his home. He bought his home for that view. Now, within a year of moving in, his view is gone. Unless you own the land between your house and the view, don't buy a house for the view.

Look beyond the staging. I read about staging while I was researching buying a home, but I never expected the amount of staging a house goes through. The psychology does work; staged houses look far better than houses that are still being occupied. One house we went to had nightstands with lamps on it next to the bed that really increased the appeal of the room. In reality, though, there were no plug points anywhere near the lights.

So practically, that setup would not have been possible without remodeling. When you are considering a house, mentally try to remove the staging. Pay more attention to the layout of the house and the structure itself. Ugly wallpaper and paint can be easily fixed later.

Chapter 5

What Seller Has To Disclose

When you've found a house you want to buy, you'll ask the seller for a Seller's Disclosure form. If you ask, the seller must provide it. This form details all physical problems and defects that the seller is aware of. This is like the car lemon law, but for houses. It's illegal for sellers to fail to disclose any problems they're aware of. But here's the kicker - it's not illegal if the seller doesn't report a problem on the form simply because he wasn't aware of it.

If the items on the Seller's Disclosure seem major, you can try to negotiate to have the seller fix them or to lower the price. Or, the price may have already been set low to take into account any problems with the house.

While the disclosure provide you some protection, notice the big loophole - The seller doesn't have to report any problem that he's unaware of. If you buy the house and discover a problem, how can you tell whether the owner knew about it? And even if you're sure the owner knew about it and neglected to put it on the disclosure, could you prove so in court? And if you think your case is strong and you could prove so, would you be willing to actually file a lawsuit, and would you have the money to do so?

The moral here is that while the disclosure gives you some protection, don't make the mistake of thinking that it provides you with ironclad, 100% protection against undisclosed problems with the house. For better information about problems with the house, you'll hire a professional inspector to check out the house and provide you with a detailed, written report about any problems they find.

If you think the price is too high given any problems listed on the disclosure, or found through your inspection, or if the seller won't make repairs and you're unwilling to do them yourself, then you'll have to start over with another house. Otherwise, if the Seller's Disclosure didn't scare you off, then you'll proceed to signing the contract.

The seller must also disclose lead-based paint and hazards. If you are buying a house built before 1978, federal law requires seller to do the following:

- disclose all known lead-based paint and hazards in the house
- give buyers a pamphlet prepared by the U.S. Environmental Protection Agency (EPA) called Protect Your Family from Lead in Your Home
- include certain warning language in the contract as well as signed statements from all parties verifying that all requirements were completed
- keep signed acknowledgements for three years as proof of compliance, and
- give buyers a ten-day opportunity to test the house for lead.

If seller fails to comply with these requirements, the buyer can sue for triple the amount of damages actually suffered.

So as you can see, there are several safeguards built in to the home buying process with these disclosures. However, it is ALWAYS advised to do your own home inspection before closing and to have an attorney working with your realtor to insure that the home you see is the home you get. You should never have any unexpected, and expensive, surprises once you move in.

Chapter 6

A Home Buyer's Glossary

When buying a home, it's important to understand some of the key concepts and terms. Throughout the purchase process, your real estate professional will be available to explain any unfamiliar terms you encounter. That said, here is a short list of terms you'll want to know:

Abstract Of Title – A complete historical summary of the public records relating to the legal ownership of a particular property from the time of the first transfer to the present.

Adjustable Rate Mortgage (ARM) – Also known as a variable-rate loan, an ARM is one in which the interest rate changes over time, relative to an index like the Treasure index.

Agreement of Sale – Also known as contract of purchase, purchase agreement, or sales agreement according to location or jurisdiction. A contract in which a seller and buyer agree to transact under certain terms spelled out in writing and signed by both parties.

Amortization – The process of reducing the principal debt through a schedule of fixed payments at regular intervals of time, with an interest rate specified in a loan document.

Appraisal – A professional appraiser's estimate of the market value of a property based on local market data and the recent sale prices of similar properties.

Assessed Value – The value placed on a home by municipal assessors for the purposes of determining property taxes.

Closing – The final steps in the transfer of property ownership. On the Closing Date, as specified by the sales agreement, the buyer inspects and signs all the documents relating to the transaction and the final disbursements are paid. Also referred to as the Settlement.

Closing Costs – The costs to complete a real estate transaction in addition to the price of the home, may include: points, taxes, title insurance, appraisal fees and legal fees.

Contingency – A clause in the purchase contract that describes certain conditions that must be met and agreed upon by both buyer and seller before the contract is binding.

Counter-offer – An offer, made in response to a previous offer, that rejects all or part of it while enabling negotiations to continue towards a mutually-acceptable sales contract.

Conventional Mortgage – One that is not insured or guaranteed by the federal government.

Debt-to-Income Ratio – A ratio that measures total debt burden. It is calculated by dividing gross monthly debt repayments, including mortgages, by gross monthly income.

Debt-to-Income Ratio – A ratio that measures total debt burden. It is calculated by dividing gross monthly debt repayments, including mortgages, by gross monthly income.

Down Payment – The money paid by the buyer to the lender at the time of the closing. The amount is the difference between the sales price and the mortgage loan. Requirements vary by loan type. Smaller down payments, less than 20%, usually requires mortgage insurance.

Earnest Money – A deposit given by the buyer to bind a purchase offer and which is held in escrow. If the property sale is closed, the deposit is applied to the purchase price. If the buyer does not fulfill all contract obligations, the deposit may be forfeited.

Equity – The value of the property, less the loan balance and any outstanding liens or other debts against the property.

Easements – Legal right of access to use of a property by individuals or groups for specific purposes. Easements may affect property values and are sometimes part of the deed.

Escrow – Funds held by a neutral third party (the escrow agent) until certain conditions of a contract are met and the funds can be paid out. Escrow accounts are also used by loan servicers to pay property taxes and homeowner's insurance.

Fixed-Rate Mortgage – A type of mortgage loan in which the interest rate does not change during the entire term of the loan.

Home Inspection – Professional inspection of a home, paid for by the buyer, to evaluate the quality and safety of its plumbing, heating, wiring, appliances, roof, foundation, etc.

Homeowner's Insurance – A policy that protects you and the lender from fire or flood, a liability such as visitor injury, or damage to your personal property.

Lien – A claim or charge on property for payment of a debt. With a mortgage, the lender has the right to take the title to your property if you don't make the mortgage payments.

Market Value – The amount a willing buyer would pay a willing seller for a home. An appraised value is an estimate of the current fair market value.

Mortgage Insurance – Purchased by the buyer to protect the lender in the event of default (typically for loans with less than 20% down). Available through a government agency like the Federal Housing Administration (FHA) or through private mortgage insurers (PMI).

Possession Date – The date, as specified by the sales agreement, that the buyer can move into the property. Generally, it occurs on the same day as the Closing Date.

Pre-Approval Letter – A letter from a mortgage lender indicating that a buyer qualifies for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.

Principal – The amount of money borrowed from a lender to buy a home, or the amount of the loan that has not yet been repaid. Does not include the interest paid to borrow.

Purchase Offer – A detailed, written document which makes an offer to purchase a property, and which may be amended several times in the process of negotiations. When signed by all parties involved in the sale, the purchase offer becomes a legally-binding sales agreement.

Title – The right to, and the ownership of, property. A Title or Deed is sometimes used as proof of ownership of land. Clear title refers to a title that has no legal defects.

Title Insurance – Insurance policy that guarantees the accuracy of the title search and protects lenders and homeowners against legal problems with the title.

Truth-In-Lending Act (TILA) – Federal law that requires disclosure of a truth-in-lending statement for consumer loans. The statement includes a summary of the total cost of credit.

Title Search – A historical review of all legal documents relating to ownership of a property to determine if there have been any flaws in prior transfers of ownership or if there are any claims or encumbrances on the title to the property.

Chapter 7

Reasons to Hire a Realtor

I am sure you have wondered why people even hire a Realtor. Well, here are a few reasons why.

* Access to every home that's on the market via an up-to-date Multiple Listing Service, and all other sources, including ones that may not be listed publicly.

* Inside track to the deals before they even hit the market.

* The ability to combine your dream home checklist with your price range.

* Knowledge of recent comparable - what similar properties have sold recently and for how much.

* Knowledge of neighborhoods and school districts.

* Ability to explain the full process and requirements to you

* The inside scoop from the seller's agents.

* Expertise to negotiate and close the deal.

* Experience to manage the legalities of foreclosures or other distressed properties.

* A litany of referrals for inspectors, mortgage brokers, and even tradesmen for renovations.

* Objective professional advice.

* ***THEIR SERVICE IS FREE!*** Sellers pay all commissions.

Chapter 8

Why you Need an Attorney

Buying a home will probably be the largest and most significant purchase you will make in your life. It also involves the law of real property, which is unique and raises special issues of practice, and problems not present in other transactions. A real estate lawyer is trained to deal with these problems and has the most experience to deal with them. A lawyer can help you avoid some common problems with a home purchase.

The purchase agreement is the single most important document in the transaction. Although standard printed forms are useful, a lawyer is helpful in explaining the form and making changes and additions to reflect the buyer's desires. There are many issues that may need to be addressed in the purchase agreement; below are some common examples:

- If the property has been altered or there has been an addition to the property, was it done lawfully?
- If the buyer has plans to change the property, may what is planned for the property be done lawfully?
- What happens if a buyer has an engineer or architect inspect the property and termites, asbestos, radon, or lead-based paint is found?
- What if the property is found to contain hazardous waste?
- What are the legal consequences if the closing does not take place, and what happens to the down payment? This question raises related questions: Will the down payment be held in escrow by a lawyer in accordance with appropriate-

ly worded escrow instructions? How is payment to be made? Is the closing appropriately conditioned upon the buyer obtaining financing?

Most buyers finance a substantial portion of the purchase price for a home with a mortgage loan from a lending institution. The purchase agreement should contain a carefully worded provision that it is subject to the buyer's obtaining a commitment for financing.

Again, it is important to remember that printed contract forms are generally inadequate to incorporate the real understanding of the buyer and seller without significant changes. In addition, there are many kinds of mortgages that may be available. Mortgage loan commitments and mortgage loan documents are complex. Attorneys can review and explain the importance of these various documents.

After the purchase agreement is signed, it is necessary to establish the state of the seller's title to the property to the buyer's - and the finance institution's - satisfaction. Generally, a title search is ordered from an abstract or title insurance company. In some states, and in outlying areas of others, title insurance is not typical. In such cases an attorney is essential to review the status of title and render an opinion of title in lieu of a title policy.

Assuming you are in an area, like Florida, where title insurance is customary, an attorney can help review the title search and explain the title exceptions as to what is not insured, and determine whether the legal description is correct and whether there are problems with adjoining owners or prior owners. He or she can also explain the effect of easements and agreements or restrictions imposed by a prior owner, and whether there are any legal restrictions which will impair your ability to sell the property.

The title search does not tell the buyer or seller anything about existing and prospective zoning. An attorney can explain whether zoning prohibits a two-family home, or whether planned improvements violate zoning ordinances.

The closing is the most important event in the purchase and sale transaction. The deed and other closing papers must be prepared. Title passes from seller to buyer, who pays the balance of the purchase price. Frequently, this balance is paid in part from the proceeds of a mortgage loan.

A closing statement should be prepared prior to the closing indicating the debits and credits to the buyer and seller. An attorney is helpful in explaining the nature, amount, and fairness of closing costs. The deed and mortgage instruments are signed, and an attorney will assure that these documents are appropriately executed and explained to the various parties.

The closing process can be confusing and complex to the buyer and seller. Those present at the closing often include the buyer and seller, their respective attorneys, the title closer (representative of the title company), an attorney for any lending institution, and the real estate agents. There may also be last minute disputes about delivering possession and personal property or the adjustment of various costs, such as utilities and taxes. If you are the only person there without a lawyer, your rights may be at risk.

Perhaps the most important reason to be represented by an attorney is conflicting interests of the parties. Throughout the process, the buyer's and seller's interests can be at odds with each other, and even with those of professionals involved in the sale. The seller’s broker serves the seller, and the lender is obtained by the buyer.

All want to see the deal go through, since that is how they will get paid. Neither of these can provide legal counsel. The respective attorneys for the buyer and seller will serve only their own clients' best interests. Seeking the advice of an attorney is a very good idea from the time you decide to sell or to buy a home until the actual closing.

And You Can Have An Attorney For Free!!

If you want me to assist you in purchasing your home, I can provide you with the services of a Realtor and an Attorney! And it will cost you nothing. All fees will be paid by seller!

Chapter 9

Purchasing A Foreclosed Property

Foreclosed properties—what we call "real estate owned" (REO) – are an excellent way to get a great deal on a home today. Although buyers can also find bargain prices on pre-foreclosure sales or homes sold at foreclosure auctions, most buyers find it easier and less risky to purchase REOs from the lending institutions and government authorities that repossess the homes. (Note: REOs also can refer to properties purchased by corpora ons from their transferring employees. This report focuses on REOs resulting from foreclosure proceedings.)

The Process of Foreclosure

The term "foreclosure" can be confusing; it really refers to a three-stage process:

1. Pre-foreclosure—initial stage when homeowner misses payments (becoming "delinquent"), then defaults on mortgage, and lender beings foreclosure proceedings (Notice of Default).

2. Auction (often referred to as a "trustee's sale" or "step sale") — the stage at which the property is put up for auction by lender; proceeds repay lender (and homeowner, if any money is le over).

3. Post-foreclosure—when properties that didn't sell at auction are repossessed, becoming REO by a lender or government agency,

such as the Federal Housing Authority (FHA) or Veterans Affairs (VA).

Why Buy an REO?

REO homes are most attractive to buyers looking for bargains. They know lenders and government organizations don't really want to own homes and would rather move their "non- performing assets" off the books as quickly as possible.

Still, being responsible to stockholders or taxpayers means institutional owners will try to recover as much of their investment in a foreclosed home as possible—unpaid loan amount, transaction costs, property taxes, maintenance costs, etc. Negotiating is key to getting a true bargain price on an REO!

REO foreclosures offer some distinct advantages to buyers.

* **Opportunity for professional inspection.** Being able to thoroughly inspect an REO can help ensure against unexpected problems and expensive repairs. Inspections are often not an option at earlier stages of foreclosure, when properties are frequently sold "as is."
* **Easier financing.** The lender or government agency may offer an attractive financing package, perhaps including a lower interest rate or smaller down payment requirement than might be available on the open market. Chances are also be er that outside lenders will consider financing an REO, since their appraisers get a chance to look at these properties. REO buyers can also negotiate for a financing contingency in their contract with the seller.

* **No eviction problems.** By the time institutional owners put their properties on the market as REOs, former owners or tenants typically have already moved out. Again, this may not be the case with pre-foreclosure and auction sales.
* **Better condition.** Homes in default and sold at auction may not be in great shape, either due to neglect by their cash-strapped former owners or damage caused by disgruntled residents or vandals. Lenders and government organizations selling REOs, however, sometimes make repairs, returning properties to livable condition—or discount the prices to sell more quickly.
* **Listings with brokers.** Most REOs are listed for sale with a real estate broker/REALTOR® who is bound by law and ethics to represent the property truthfully.

Costly Mistakes to Avoid

Understanding some of the costliest mistakes to avoid goes a long way to finding a great REO bargain in today's market.

Mistake 1. All REOs are bargains. Understand that the institution selling the property (lender, government, corpora on, etc.) wants to clear its inventory. The home's condition is not their concern. Be prepared to do your homework—and rely on a professional real estate specialist to avoid any land mines.

Mistake 2. Overbidding. REO buyers must know area home values, condition of nearby properties, neighborhood trends, street noise, airplane traffic, and zoning issues that affect the property's value. Sometimes foreclosures are priced below market value to attract multiple bids and "drive up" the sales price. We'll help you bid right.

Mistake 3. No inspection necessary. Some REO buyers think a professional home inspection is too expensive—that's a costly mistake. Lenders and others who sell a property "as is"may not be obligated to disclose problems and defects. Only a licensed home inspector can identify hidden problems from electrical wiring or plumbing to radon or pest infestation to serious structural or system problems. Be sure to do a walk-through before making an offer.

Mistake 4. No clear title. A "lien" is a legal claim against a home (e.g., for unpaid property or income taxes, unpaid contractors or loans borrowed against the property). Liens can stay intact un l the money is paid, which means you may have to pay off any outstanding liens as the new owner (if the institutional seller has not already done so).

Be forewarned: Having a professional title search done is critical to know where you stand. You may want to add a clear-title contingency to your offer to the seller. Without a clear title, you may not be able to get owner's title insurance to protect you against unforeseen claims. Consider upgraded owner's insurance (ALTA-R policy) to protect against last minute or unrecorded items.

Also, ask us about any "redemption period" in our area that can allow the previous owner to reclaim the property by paying the money they owed ("cured default").

Mistake 5. Not enough cash. Be prepared to pay for closing costs and fees or any repairs and unforeseen expenses, especially if you're buying an "as is" property with FHA financing that may require buyer-paid repairs to pass FHA inspection. An REO may not be a bargain if you can't afford to make it livable.

Mistake 6. Not enough patience. To be a smart REO buyer, you must do your research, know about other higher or lower bids (if possible), property taxes, utility bills, liens. Take me for due diligence.

Mistake 7. Not asking questions. Ask for copies of all relevant permits, repair receipts, surveys and inspection reports (if any). Inquire about past-due condominium assessments or homeowners association dues that might create a lien. Be clear about any brokerage commission to be paid and who pays it (seller or buyer). Then follow up with calls, on-site visits, more research, and together we will guide your purchase to closing.

REO Properties to Avoid

Reconsider buying a foreclosed property if the home:

• Does not come up to neighborhood standards for size or amenities (e.g.,at least 3 bedrooms, 2 baths where that is typical).
• Is in a declining neighborhood or region due to crime, air quality, traffic, schools, job losses, high concentration of vacant or foreclosed homes, etc.
• Has radon gas, asbestos, mold, oil or lead contamination.
• Can't be rented out (if need be) for enough to cover the mortgage and fees.
• Is in an unstable location, such as an earthquake-prone or landslide area.
• Has foundation cracks, uneven se ling, roof or other structural or drainage problems.

• Has extensive pest or termite damage.
• Has serious building-code violations, especially illegal or un-permitted conversions or additions.

REOs Can Be A Great Deal

If you have been priced out of homeownership the last several years, buying a foreclosed home may be your chance to get a home of your own. We can help. As experienced neighborhood specialists we make it our business to represent buyers of foreclosed properties. Contact us to learn how we do it. There's no cost for this information—and absolutely no obligation to you!

Chapter 10

The Top Mistakes In Buying Foreclosed Homes

Nothing illustrates the devastation of America's housing bust more vividly than the abandoned properties now blighting the nation's communities. In the third quarter alone, foreclosure filings were reported on more than 750,000 properties in the United States, a 71 percent increase from the same period last year, according to RealtyTrac. But for real estate investors, one person's tragedy can be another's good fortune. With so many foreclosures on the market, "this is a once-in-a-generation opportunity for many people," says Steve Dexter, a foreclosure expert and author of the forthcoming book *Buy and Hold Forever—Building Real Estate Wealth Far Into the 21st Century*.

Still, the purchase of foreclosed property—an often complex and involved process—presents would-be buyers with plenty of opportunities to make costly mistakes. In an effort to help consumers avoid such pitfalls, *U.S. News* spoke with a handful of experts to create a list of six common blunders that individuals make when attempting to buy foreclosed properties.

1. Flying solo. While enterprising do-it-yourselfers can certainly get away with going through the traditional home buying process without an agent, foreclosed real estate is another matter. Such complex transactions require the expertise of not just any real estate agent but one with a background in buying and selling foreclosed homes. In today's uncertain times it's important to be working with someone who has been through market cycles before. So, unless you are truly a real estate expert, do some research and find an agent with foreclosure experience in your market.

2. Being unfamiliar with the law. It's important to remember that real estate agents aren't lawyers, and foreclosure laws can change significantly from state to state. "A lot of people don't realize [that] foreclosures are heavily regulated and every state has its own set of laws," says Alexis McGee, the president of Foreclosures.com. "If you don't have the language proper in your contract, or if you have even the font size wrong, it's criminal and civil damages—don't count on every Realtor knowing this." As such, McGee advises against relying on a real estate agent for legal advice. Instead, consumers should review the foreclosure laws in their state and then get qualified legal advice from a local real estate attorney.

3. Thinking short term. Since many foreclosed homes may decline further in value in the coming months, it's important that buyers approach the transaction from a long-term perspective. If you are not looking at a piece of foreclosed property from a 10-year time horizon—as an investor or as an owner occupant—then you can suffer. So, if you are just trying to cash in on a quick flip, don't buy a foreclosure. Only investors with the resources and patience for a long-term real estate investment and homeowners who can afford a fully amortized fixed-rate mortgage should consider buying foreclosed property.

4. Seeing only the sticker. While the price you negotiate for a foreclosed home may be significantly less than its value just a few years back, many such homes may require substantial repairs.

Anyone buying a foreclosed property should make sure to set aside an additional 10 percent of its price tag for repairs. Make sure you have 10 percent, especially if the home is a few years old. It is amazing how quickly houses can deteriorate. Prospective buyers should keep these additional repair costs in mind when they are negotiating the home's price.

5. Searching too broadly. With so much inventory coming onto the market these days, it's easy for buyers to become overwhelmed. To that end, I recommend that anyone in the market for a foreclosure target a specific neighborhood and contact an agent with experience there.

Make sure to specify the type of property you are looking for in order to avoid being inundated with listings. Tell the agent you want all these kinds of houses in this neighborhood that are bank listings and you want to know about them all as they come on the market. The agent will then be able to shoot you all the listings that meet your requirements as they become available. If you are patient enough and get plugged in to the flow of new bank listings coming in, you can pick up some awfully good deals.

Chapter 11

Buying Investment Properties

"Ninety percent of all millionaires become so through owning real estate." - Andrew Carnegie

You may be interested in buying an investment property if you want to diversify your holdings beyond stocks and bonds. While stories of quick flips—buying a home, renovating it, and reselling at a much higher price—dominate TV reality shows, renting is the true core of real estate investing. That's because historically there has been very little real price appreciation in houses. Renting generates a steady monthly paycheck, like a classic dividend-paying utility stock. Any price appreciation is a bonus.

But investing in a rental home isn't like buying a low-cost index fund. Choosing the right property, maintaining it, dealing with tenants—all that takes work.

Even though home prices have bounced back, deals can be found everywhere, if you know how to look.

Why Invest In Real Estate?

There are many different places you can stick your money other than under your pillow, including stocks, bonds, savings, mutual funds, CD, currencies, commodities, and of course, real estate. There are positive and negative aspects of each investment option, but since we're here to learn about real estate, we'll focus on that and that alone.

One of the most commonly stated reasons that people give for investing in real estate is that they are seeking out financial freedom, but there are others as well -- of course, each person will have their own personal reasons why. They are typically seeking one or several of the following:

- Appreciation
- Cash Flow
- Depreciation
- Leverage
- Tax Benefits

The decision to begin investing in real estate is a personal one, and we absolutely recommend you make sure you and your family are 100% committed before deciding to move forward in doing so.

Can I Invest in Real Estate if I Have a Full Time Job?

Yes. The kind of real estate investing you might see on television or might hear about from a guru is not the only kind of real estate investing out there. In many situations, that kind of investing is not even investing at all, but simply gambling or speculating.

The truth is, there are hundreds of ways to make money in real estate. Some of these techniques or strategies might require forty hours a week, while others might only require forty hours per year. The amount of time it takes to grow your real estate business largely depends on your investing strategy, your personality, your skills, your knowledge and your timeline.

You've probably heard the age-old high school guidance counselor question, "If you suddenly had one million dollars and didn't have to work anymore, what would you do?" The answer, it's said, is what career field you should be in. Would you invest in real estate?

If your dream path would be to open up a shelter for abused animals or to move to Aruba and train tourists to surf, you probably should not be a full time real estate investor. That's not to say that you shouldn't invest in real estate -- you just probably shouldn't go full time.

However, you don't need to make real estate your career in order to build wealth in real estate. If you love your job, you don't need to quit it to invest in real estate. You can achieve the same or better results as a full-time real estate investor by investing on the side.

> *One of the perks of investing while working full time is the steady income stream to fund and support your real estate investments. Don't underestimate the importance of this!*
>
> *-Brandon Turner, Community Manager*
> *BiggerPockets.com*

Advantages of Investing While Working a Full-Time Job

By keeping your day job, you have several advantages over a full-time investors. First, you do not need to live off any of the cash flow you make -- that's what your 9-5 is for. By reinvesting all the profits from your investments, you can fully realize the incredible benefit of exponential growth. Additionally, you have a much easier ability to get long-term bank financing thanks to the stable income from work, which can also help increase and stabilize your wealth building.

Investing in real estate while keeping your day job can be done in many ways, such as:

- Partnering in a larger piece of property
- Buy-and-hold property with property management
- Serving as a private or hard money lender
- Investing in notes (mortgages)

Real estate can be highly profitable as a career or if you're just investing while working a "normal job." However, the choice is yours as to which path you take. Don’t simply decide to quit your job and become a full time investor because you read about other investors who have been successful doing it that way. Having a concrete plan for how you're going to proceed in real estate is essential; we'll get into that a little later in the guide.

That said, life is too short to be stuck in a job you hate. Choose a career that makes you excited to wake up in the morning, energized throughout the day, and content when you fall asleep at night. If that desire leads you to full time real estate investing, welcome to the club! Just make sure you are not simply building a career, but building a future.

Can I Invest in Real Estate if I Have No Money?

The simple answer is: yes, it is possible to invest in real estate if you don't have any money at all. However, there is money involved in every real estate transaction. The issue, therefore, is not whether you're investing with "no money," but instead whether you're investing with "none of your own money."

Investing in real estate without using any of your own money requires using Other People's Money (OPM) -- learning to strategically invest in real estate without any of your own money is one of the most complex but important tools you can develop in your real estate investing career.

The key to investing in real estate without any money of your own is simple: bring something to the table. If you lack money, there are other things you can bring to the table in a transaction -- if structured correctly -- including education, time, connections, confidence, intelligence, and creativity. By reading this guide, you are already taking steps toward building your strengths in those areas.

Many investors use little or none of their own money when investing in real estate by using one of several methods that include:

- Wholesaling
- Using partners
- Using lease option strategies
- Via FHA 3.5% down payment loans
- Using USDA or VA no-down payment loans
- With home equity loans or lines of credit
- Using private/hard money.

Investment Strategies

As an investor, you will use a variety of strategies when dealing with your investments to produce wealth. Below are three of the most common strategies that you can use to make money with these vehicles.

Buy & Hold

Perhaps the most common form of investing, the "buy and hold strategy" involves purchasing a property and renting it out for an extended period of time. It's probably the most simple and purest form of real estate investing that there is. Essentially, a "buy and hold investor" seeks to create wealth by renting the property out and either collecting monthly cash flow or simply holding the property until it can be sold for a gain in the future.

Among the advantages of this strategy is that during the time that you hold the property and rent it out, the mortgage is paid down each and every month, decreasing your principal balance and increasing your equity in the property.

One of the most important things for a new buy and hold investor to understand is how to evaluate deals and opportunities. By far the most common mistake that we see new investors make with this strategy is buying bad deals because they simply don't understand property evaluation.

Other common problems include underestimating expenses, making bad decisions on tenant selection, and failing to manage properly. These mistakes can all be avoided, however, if you simply learn the business; jumping in without proper education can be extremely costly financially and sometimes, legally.

To properly carry out the buy and hold strategy, an investor should learn how to properly identify the ebbs and flows of the market that a property is located in. Ultimately, when they perceive the market and the properties they are interested in to be at a low point (prices low, inventory high), the buy and hold investor seeks to purchase properties.

When the market becomes over-heated, an experienced buy and hold investor will usually stop buying until they see things settle back down. During these slow periods, they may sell or simply continue to hold their properties. Some buy and hold investors never sell a property, choosing instead to pay the mortgage off and live on the cash flow

Flipping Real Estate

One of the most popular tactics for making money in real estate, due largely to the numerous shows on cable TV that promote it, is flipping houses. House flipping is the practice of buying a piece of real estate at a discounted price, improving it in some way, and then selling it for a financial gain. In reality, the flipping model is quite similar to the "buy low, sell high" model of most retail businesses.

The most popular type of property to flip is the single family home. Following a rule of thumb known as the 70% rule, an experienced house flipper will buy a home for 70% of its current value less any rehab costs.

For example: Home A should be worth $100,000 if it were in good condition, but it needs $20,000 worth of work. A typical house flipper will purchase the home for $50,000 ($100,000 x 70% - $20,000) and seek to sell it for the full $100,000 when completed. This is simply a rule of thumb, and actual numbers must be verified and adjusted to ensure a successful and profitable flip.

One of the key aspects in flipping a house is speed. A house flipper will attempt to buy, rehab and sell the property as quickly as possible to ensure maximum profitability and to avoid many months of expensive carrying costs. These carrying costs include monthly bills such as financing charges, property taxes, condo fees (if applicable), utilities and any other maintenance bills required to keep the house in good financial standing.

Flipping is not a "passive" activity, but instead is just like an active day job. When an investor stops flipping, they stop making money until they begin flipping again. Many investors choose to use flipping to fund their day-to-day bills, as well as provide financial support for other, more passive investments.

Wholesaling Real Estate

Wholesaling is the process of finding great real estate deals, writing a contract to acquire the deal, and then selling the contract to another buyer. Generally, a wholesaler never actually owns the piece of property they are selling; instead, a wholesaler simply finds great deals using a variety of marketing strategies, puts them under contract, and sells that contract to another for an "assignment fee."

This fee is typically between $500 and $5,000 on average -- or more depending on the size of the deal. Essentially, the wholesaler is a middleman who is paid for finding deals.

Some wholesalers sell their contracts to retail buyers, but most sell their contracts to other investors (often house flippers) who are typically "cash buyers." When dealing with these cash buyers, a wholesaler can often get paid within days or weeks and can build solid connections in the real estate community.

Many investors choose to begin with wholesaling due to its reputation of being an easy strategy and one with low start up costs when first beginning. Because the property is never actually owned by the wholesaler, there are no rehab costs, loan fees, contractors, tenants, banks, or other complications.

Wholesaling is the most popular strategy taught by real estate gurus and often receives the most attention as a result, though it is not as easy to become a successful wholesaler as they make it sound.

Wholesalers must continually seek out the best deals in order to have inventory to sell to others and must have a well designed marketing funnel to continually attract these leads. Wholesalers also must continually seek out buyers for the deals they acquire.

While promoted as a strategy that anyone can do -- even someone with ZERO money -- you ultimately do need to have financial resources to build your marketing funnel. That said, those who persist in growing their wholesaling skills often find great success and a good source of income while they grow their knowledge of other, more profitable strategies.

Chapter 12

The Time To Invest In a Second Home Is Now

With interest rates projected to rise and inventory increasingly tight, the window for purchasing a second home at an affordable price may be starting to close.

Such sentiment has helped to fuel the recent boom in vacation property sales among affluent investors, many of whom are feeling flush on the heels of a six-year stock market rally. Demand is particularly high among baby boomers who are prepositioning for retirement. "Last year's impressive increase reflects long-term growth in the number of baby boomers moving closer to retirement and buying second homes to convert into their primary home in a few years," said Lawrence Yun, chief economist for the National Association of Realtors (NAR).

Vacation home sales rose 57 percent last year over 2013, to 1.3 million properties, well above their most recent peak level in 2006, according to NAR. In fact, vacation home sales accounted for 21 percent of all real estate transactions last year, their highest market share since the survey was first conducted in 2003. NAR found in a survey that 85 percent of vacation buyers think now is a good time to purchase real estate.

The Advantages of Buying an Investment Property

Owning a property and renting it out reaps a variety of advantages for the investor, including extra income, tax breaks and asset diversification. Know your market, consult with a licensed accountant and screen your tenants carefully for the best possible results. And although there are significant risks, those who do their homework in advance are poised to earn significant financial gains.

Tax Advantages

According to the New York Times, rental property owners get more tax breaks than any other type of investor. In addition to mortgage interest and insurance, landlords can deduct repair costs -- but not improvement costs -- as well. Also, landlords can depreciate the cost basis over a multi-year period -- 27 1/2 years for residential and 39 years for commercial properties. That means landlords get to keep some or a portion of rental income on a tax-free basis. Travel expenses, home office expenses and unexpected losses resulting from an event such as a fire or a flood also are deductible.

Rental Income

The most well-known advantage to owning a rental property is the monthly rental income that the landlord earns. Ideally, the rental income covers the cost of any home loan that the landlord secured on the property, in addition to the cost of upkeep.

Some landlords require tenants to pay for utilities, lawn care and snow removal; others don't. If your tenant doesn't pay utilities, the Times reports that you can deduct them on your taxes. You also can deduct other costs such as association dues, property taxes and garbage disposal.

Asset Diversification

Although real estate is not a liquid asset -- as many unfortunate homeowners discovered following the burst of the housing bubble in 2008 -- it does provide an effective method of diversification. According to real estate investor Charrissa Cawley, real estate, in general, rises in value far more often than it falls -- making it, historically, a very safe investment. In 2012, with average current pricing below the highs achieved in 2007, real estate investors who are flush with cash may feel they've won the real estate investing lottery.

Playing it Smart

Owning a rental investment can be an effective way to earn passive income -- or it can be a nightmare. Keep your experience positive by screening tenants carefully; this includes verifying credit and criminal backgrounds as well as getting employment and personal references. Always sign a lease and make sure rules about pets, payment due dates and upkeep responsibilities are clear.

Finally, do the math. Although purchasing a rental property may seem like a great idea on paper, life often intrudes on the best-laid plans. Toilets overflow, houses need painting and dishwashers break -- if you are prepared to pay for these costs on an extra home even when it's vacant, you may be ready to be a landlord.

Chapter 13

Top 10 Features Of A Profitable Investment Property

From the first decision to invest in real estate to actually buying your first rental property, there is a lot of work to be done. This task may be daunting for the first-time investor. Owning property is a tough business and the field is peppered with land mines that can obliterate your returns. Here we'll take a look at the top 10 things you should consider when shopping for an income property.

Starting Your Search

Your investing range will be limited by whether you intend to actively manage the property (be a landlord) or hire someone else to manage it. If you intend to actively manage, you should not get a property that's too far away from where you live. If you are going to get a property management company to look after it for you, your proximity to the property will be less of an issue.

Let's take a look at the top 10 things you should consider when searching for the right rental property.

1. **Neighborhood:** The quality of the neighborhood in which you buy will influence both the types of tenants you attract and how often you face vacancies. For example, if you buy in a neighborhood near a university, the chances are that your pool of potential tenants will be mainly made up of students and that you will

face vacancies on a fairly regular basis (during summer, when students tend to return back home).

2. **Property Taxes:** Property taxes are not standard across the board and, as an investor planning to make money from rent, you want to be aware of how much you will be losing to taxes. High property taxes may not always be a bad thing if the neighborhood is an excellent place for long-term tenants, but the two do not necessarily go hand in hand. The town's assessment office will have all the tax information on file or you can talk to homeowners within the community.

3. **Schools:** Your tenants may have or be planning to have children, so they will need a place near a decent school. When you have found a good property near a school, you will want to check the quality of the school as this can affect the value of your investment. If the school has a poor reputation, prices will reflect your property's value poorly. Although you will be mostly concerned about the monthly cash flow, the overall value of your rental property comes in to play when you eventually sell it.

4. **Crime:** No one wants to live next door to a hot spot for criminal activity. Go to the police or the public library for accurate crime statistics for various neighborhoods, rather than asking the homeowner who is hoping to sell the house to you. Items to look for are vandalism rates, serious crimes, petty crimes and recent activity (growth or slow down). You might also want to ask about the frequency of police presence in your neighborhood.

5. **Job Market:** Locations with growing employment opportunities tend to attract more people – meaning more tenants. To

find out how a particular area rates, go directly to the U.S. Bureau of Labor Statistics or to your local library. If you notice an announcement for a new major company moving to the area, you can rest assured that workers will flock to the area. However, this may cause house prices to react (either negatively or positively) depending on the corporation moving in. The fallback point here is that if you would like the new corporation in your backyard, your renters probably will too.

6. **Amenities:** Check the potential neighborhood for current or projected parks, malls, gyms, movie theaters, public transport hubs and all the other perks that attract renters. Cities, and sometimes even particular areas of a city, have loads of promotional literature that will give you an idea of where the best blend of public amenities and private property can be found.

7. **Building Permits and Future Development:** The municipal planning department will have information on all the new development that is coming or has been zoned into the area. If there are many new condos, business parks or malls going up in your area, it is probably a good growth area. However, watch out for new developments that could hurt the price of surrounding properties by, for example, causing the loss of an activity-friendly green space. The additional condos and/or new housing could also provide competition for your renters, so be aware of that possibility.

8. **Number of Listings and Vacancies:** If there is an unusually high number of listings for one particular neighborhood, this can either signal a seasonal cycle or a neighborhood that has "gone bad." Make sure you figure out which it is before you buy

in. You should also determine whether you can cover for any seasonal fluctuations in vacancies.Similar to listings, the vacancy rates will give you an idea of how successful you will be at attracting tenants. High vacancy rates force landlords to lower rents in order to snap up tenants – low vacancy rates allow landlords to raise rental rates.

9. **Rents:** Rental income will be the bread and butter of your rental property, so you need to know what the average rent in the area is. If charging the average rent is not going to be enough to cover your mortgage payment, taxes and other expenses, then you have to keep looking. Be sure to research the area well enough to gauge where the area will be headed in the next five years. If you can afford the area now, but major improvements are in store and property taxes are expected to increase, then what could be affordable now may mean bankruptcy later.

10. **Natural Disasters:** Insurance is another expense that you will have to subtract from your returns, so it is good to know just how much you will need to carry. If an area is prone to earthquakes or flooding, paying for the extra insurance can eat away at your rental income.

Getting Information

Talk to renters as well as homeowners in the neighborhood. Renters will be far more honest about the negative aspects of the area because they have no investment in it. If you are set on a particular neighborhood, try to visit it at different times on different days of the week to see your future neighbors in action.

The Physical Property

In general, the best investment property for beginners is a residential, single-family dwelling or a condominium. Condos are low maintenance because the condo association is there to help with many of the external repairs, leaving you to worry about the interior. Because condos are not truly independent living units, however, they tend to garner lower rents and appreciate more slowly than single-family homes.

Single-family homes tend to attract longer-term renters in the form of families and couples. The reason families, or two adults in a relationship, are generally better tenants than one person is because they are more likely to be financially stable and pay the rent regularly. This owes to the simple fact that two can live almost as cheaply as one (as far as food, rent and utilities go) while still enjoying dual income. As a landlord, you want to find a property and a neighborhood that is going to attract that type of demographic.

When you have the neighborhood narrowed down, look for a property that has appreciation potential and a good projected cash flow. Check out properties that are more expensive than you can afford as well as those within your reach – real estate can often sell below its listing price.

Watch the listing prices of other properties and ask buyers about the final selling price to get an idea of what the market value really is in the neighborhood. For appreciation potential, you are looking for a property that, with a few cosmetic changes and some renovations, will attract tenants who are willing to pay out higher rents.

This will also serve you well by raising the value of the house if you choose to sell it after a few years.

As far as cash flow, you are going to have to make an informed guess. Take the average rent for the neighborhood and subtract your expected monthly mortgage payment, property taxes (divided by 12 months), insurance costs (also divided by 12) and a generous allowance for maintenance and repairs.

Don't lie to yourself and underestimate the cost of maintenance and repairs or you will pay for it once the deal is done. If all these figures come out even or, better yet, with a little left over, you can now get your real estate agent to submit an offer and, if everything goes well, order business cards with Landlord emblazoned across the top.

The Bottom Line

Every state has good cities, every city has good neighborhoods and every neighborhood has good properties, but it takes a lot of footwork and research to line up all three. When you do find your ideal rental property, keep your expectations realistic and make sure that your own finances are in a healthy enough state that you can wait for the property to start producing cash flow rather than needing it desperately.

Real estate investing doesn't start with buying a rental property - it begins with creating the financial situation where you can buy a rental property.

Chapter 14

Foreign Buyers Guide

HOW TO PURCHASE A HOME IN THE U.S.

The term "global marketplace" has never been more descriptive - particularly when it comes to real estate.

Every year, foreign residents invest millions of dollars in U.S. residential real estate across all 50 states, with Florida being a leader. Property sales in the United States to foreign buyers amount to more than 6 percent of total U.S. home sales in value.

Whether you're an ***international investor***, ***a Canadian snowbird*** or a first-generation immigrant living in the United States, purchasing in an unfamiliar market can be daunting. While this guide will help you get started, it is no substitute for the expertise of an experienced real estate agent or attorney that you will want to consult along the way.

DETERMINE HOW THE PROPERTY WILL BE USED

Before you start your property search, it's important to think ahead to how you'll use the home once the deal is done.

- Will this be a vacation home?
- A home to stay in while doing business in the United States?
- A home for your children while they attend college in the States?
- An investment?

- An eventual long-term residence?

SIMPLY BUYING REAL ESTATE in the United States does not give foreign owners any rights or privileges regarding legal stay or status. If you're interested in staying in the states longer than allowed by a standard visa, contact an immigration attorney.

By determining the primary use for your property and how long you plan to own it, you'll be able to provide information to your real estate agent that will help guide the search and sale.

LEARN HOW THE U.S. REAL ESTATE MARKET WORKS

The way U.S. real estate transactions are carried out may differ from your home country. ***EACH STATE IN THE UNITED STATES*** has its own set of rules regarding the purchase of real estate, including the type of purchase contract used, the method of closing the sale and even the duties and titles of the individuals involved.

Several important U.S. real estate practices worth noting:

- In the United States, real estate agents need licenses to operate. The licensing laws of each state differ regarding how much education is required, the type and depth of licensing examinations, and whether continuing education courses are required once an agent becomes licensed. The licensing system was designed to ensure real estate agents are qualified to guide consumers through the maze of finding, evaluating and financing real estate. Many other countries like

Costa Rica, Mexico, El Salvador and Belize do not require real estate agents to be licensed.

- Real estate agents are not licensed to give legal advice. So it's always a good idea to get the name and number of a real estate attorney in case you ever need one. Even better, try to find a real estate agent who is also an attorney.
- In the United States, homes and real estate listing information is listed online on a multiple listing services. This private service is shared by all agents who are Realtors. However, consumers can access that same information using various real estate sites. In many other parts of the world, real estate is a fragmented business and buyers have to go from agent to agent to find a property. Here, you can use one real estate agent who can show you, and provide information on, any house listed for sale. The seller will have his/her own real estate agent so there are no conflicts of interest. Your agent represents you! So your first step is to find a Realtor to help you.
- In some countries, it is typical to pay a fee to the agents who are scouting properties on your behalf and showing you around. In the United States, the sales commission is paid by the seller, so buyers don't pay anything to have an agent work on their behalf.
- Your Realtor will help you put together a standard contract and present your offer to the seller. The contract is contingent upon certain contingencies, such as you doing a complete inspection, having the property appraised, and getting a home loan if you are going to finance your purchase. The seller then has three options once you provide your offer. (1) Accept your offer; (2) Reject your offer; (3) Make a counter offer. If a contract is accepted, the buyer and seller

are “in contract”. Both sides then work through the contingencies to completion. The closing is then conducted by a licensed title agent or attorney, who will create all paperwork, pay buyer’s money to seller, provide buyer with title to the property and record the title in the public records.The buyer will also receive an Owner’s Title Insurance Policy which protects the buyer from future claims.

- A Realtor is trained to compare the relative values of every house for sale.
- Your Realtor can also help you when you want to buy a new home or build your own home. The agent in the builder’s office works for the seller, not for you!

Foreign buyers will also want to give consideration to issues such as currency exchange rates, international wire transfers, banking systems, multi-national taxation and accounting issues, and import/export restrictions regarding currency and household goods.

Taking the time to learn how to convert from U.S. dollars into your native currency will simplify your shopping experience. Review the latest currency exchange rates. ***IF MATH ISN'T YOUR THING***, download a good currency converter app to do the work for you.

WORK WITH LOCAL REAL ESTATE PROFESSIONALS

Foreign buyers, in particular, should take the time to find qualified and experienced professionals to walk you through the real estate purchasing process. Legal knowledge is a definite plus for your Realtor.

IF YOU'RE NOT FLUENT IN ENGLISH, or prefer speaking in your native language, choose agents, attorneys, inspectors and bankers who are conversant in your native language. While it may be possible to get translated copies of standard real estate documents, it's likely that you will have to sign the English versions when it comes time to close the deal.

Assembling a qualified team will take some time - ask associates for referrals, do website searches, find locals in real estate directories and check references. In the end, the expertise these professionals bring should make the experience less stressful for you.

FIND FINANCING

Qualified foreign buyers with a 30 to 40 percent down payment can often obtain financing for their U.S. real estate purchases. ***MANY BANKS REQUIRE FOREIGN BUYERS*** to have a specific amount ($100,000 or more) on deposit with the bank while others set loan limits of $1 million to $2 million. You may also be required to present a minimum of three months of bank statements.

The U.S. home loan market offers an array of safe, affordable mortgages, including some that will allow Muslims to buy a home without violating Islamic laws against paying interest.

Before applying for a U.S. mortgage, you must first establish credit and earn a good credit score. You can start building your credit score by opening U.S. bank and credit card accounts. You'll also want to be sure to report all income on your tax returns. Lenders use this income information to determine how much money they're willing to loan you to buy a home.

When the time comes to apply for a mortgage, consider major banks with global operations. These lenders will have the experience necessary to verify credit established in other countries and to guide you through the U.S. home-buying process. If you are fortunate enough to be able to pay cash for your new home, the process will be much easier and quicker.

QUESTIONS & ANSWERS

Do I need to become a citizen to buy a home in the U.S.?

No, you won't need your citizenship or a green card, but you will need an Individual Taxpayer Identification Number (ITIN). That's a tax-processing number assigned to foreign nationals who are required to have a U.S. taxpayer identification number, but do not have one and are ineligible for Social Security numbers.

An ITIN can be issued by the Internal Revenue Service or by a Certified Professional Accountant approved by the IRS. You will have to fill out a Form W-7 (in English language) or a Form W-7(SP) (in Spanish language) in order to request your ITIN. On the W-7 form you will be required to give a valid reason for your application.

Depending on your nationality, you may also need a valid foreign passport, visa and two or more current photo identifications, such as a driver's license.

What should I expect from my first meeting with my real estate agent?

This is the perfect time for you to tell your agent exactly what you're looking for in a property and your budget. It might also be a good idea to take the time to tell your agent how the home-buying process works in your native country and ask about any differences in the U.S. market.

The more you know, the less stressed you'll be when you enter into the negotiation process.

Will I need to hire a real estate lawyer?

Although not mandated, you may want to seek the services of a real estate attorney to help with any legal issues or questions you may encounter along the way. A real estate lawyer can review the sales contract for you, check the title and other documents relating to your purchase, and advise on legal and tax issues concerning your property. If you can find a real estate agent who is also an attorney that will be even better.

Is there a type of property I can't purchase in the United States?

Foreign buyers are eligible to buy single-family homes, condominiums, duplexes, triplexes, quadraplexes and townhomes.

Housing cooperatives or co-ops often have rules prohibiting foreign ownership. That's because co-ops generally require that a buyer's source of income be from the United States and that most of the majority of the buyer's assets be kept in the U.S.

Should I purchase U.S. property in my name?

Foreign investors can purchase property directly - in their own names - or through some sort of business entity, such as a domestic corporation, foreign corporation, limited partnership, joint venture, real estate investment trust or limited liability company.

How the property will be used should play into your decision. Additionally, the structure through which you purchase your property can have dramatic tax consequences. Your real estate attorney and accountant should be able to provide counsel concerning your options.

Can I pay for my property in cash?

Yes, all-cash purchases are permitted, but U.S. law mandates that cash transactions over $10,000 be reported to the federal government. The requirement for reporting involves everyone connected to the transaction (purchaser, real estate agents, attorneys and title companies). The government wants to know how you earned the money and that it was legally obtained.

Cash buyers can potentially save money on mortgage application fees, loan origination fees, appraisals and title insurance.

Are there specific states in which foreign buyers should look for properties?

International buyers are attracted to different parts of the United States for different reasons. Some want to be close to business interests or family, while many others are drawn to warmth.

In 2012, Florida had the largest number of international buyers at 23 percent, followed by California at 17 percent, Arizona and

Texas both at 9 percent and New York at 3 percent. According to the National Association of Realtors, about half of 2012's foreign buyers purchased homes in suburban areas and 25 percent opted for homes in more urban areas.

Do I have to travel to the U.S. for the closing?

While you may very well want to attend your real estate closing, it is not necessary. In the event that you cannot or choose not to attend your closing, you can execute a "Power of Attorney." This is a written document authorizing another person to represent you and sign on your behalf.

Are there additional fees I will need to pay at closing?

Yes, the buyer typically is responsible for paying for legal fees, transfer taxes and recording fees, amounting to a small additional cost above the purchase price. A real estate agent who has a basic understanding of real estate law and the closing process can give you a good estimate of these costs before you start looking.

How will a U.S. real estate purchase affect my taxes?

A foreign property owners' tax liability in his home country will vary depending upon where the purchaser is from and whether that country has a tax treaty with the United States. Consult a tax attorney familiar with your home country's treaty to get answers to tax-related questions.

The United States government requires that foreign nationals pay U.S. income taxes (state and federal) on any net income (rental revenues less expenses) received from rental property. If tax returns are not filed in a timely fashion, a tax of 30 percent of the gross rental income may be assessed.

Even if you're incurring losses in the early years of your investment and you don't owe any taxes to the government, you still must file your tax returns in a timely manner or be subject to financial penalty.

What is FIRPTA?

FIRPTA refers to the Foreign Investment in Real Property Tax Act of 1980. This ruling authorizes the United States to withhold income tax when property is sold, exchanged, gifted, transferred or liquidated by a foreigner, in some circumstances.

If you are a seller of real property the Internal Revenue Service can hold up to 15 percent of the proceeds of the sale until the seller files a tax return for that year and determines whether any income taxes are owed. Of course, there are always exceptions to this rule. Your real estate attorney can provide you with more information.

What others think about David . . .

"What a blessing to have a realtor who is also an attorney" J.D., Windermere

". . . I was ready to sell my home for $32,000 less before I met David. What a lifesaver" G.N., St. Augustine

"Knowledge of real estate and law were top notch. But his care and honesty were number 1 with me" J.W., Kissimmee

"No other realtor explained the legal aspects before. Priceless!" F.B., Kissimmee

"David has worked with 3 different members of my family over the years and I continue to recommend him to all my other family and friends" V.R., Lake Mary

David Dowell is a Real Estate Broker and Attorney at Law. David is a resident of Windermere and has lived in the Orlando area for over 25 years.

David is the author of "How To Sell Your Home For More Money" and "The ABCs Of Buying Your Home".

As a graduate of the Indiana University School of Business and Indiana University School of Law, he has knowledge of all the legal aspects of real estate transactions.

You can contact David directly by phone or text at (407) 864-2265, or you can email him at david@PanAmOrlando.com. You can also find David online at www.PanAmOrlando.com or www.HomeValuesOrlando.com.