



## [Fixer Jay's Mom & Pop Millionaire Blog](#)

**Making money with real estate anytime, anywhere**

### Entries Tagged as 'Develop a Business Plan First'

#### [Seller Problems Create Biggest Paydays](#)

In order to acquire properties at bargain prices - or prices that will allow you to make a reasonable profit, *you must first determine if the property can actually be purchased for a reasonable price!* Okay, I hear you thinking to yourself — Boy, this don't seem so tough! Why can't I just ask the seller?

Certainly he can tell me in a minute. Friends, here's a bit of advice — Sellers may not understand why they have problems, *especially if they paid too much themselves.*

Many times I've found very desirable properties for sale, but they're seriously over-financed. Owners (sellers) who have over-financed properties are often extremely anxious to sell and many times for little or no cash down payments. **The reason is to stop their negative cash flow!** You must beware of these kinds of properties. An over-financed property can spell big trouble, no matter how small the down payment is. Once you determine how much you can afford to pay for a property and still make money for yourself, you must drop the whole idea if it looks like the purchase price will exceed your estimate! *Sellers with too much existing debt have very limited flexibility for negotiating the price downward.* Conversely, sellers with lots of equity also have lots of room to reduce their asking prices. ***These are the sellers you're looking for.***

#### FORGET SELLERS WHO CAN'T MAKE YOU A GOOD DEAL

Quite often you'll find sellers who have over-financed their real estate by paying too much in the first place or by adding additional loans during their ownership. Regardless of the reason, *and it don't matter much, these sellers are simply not in a position to make you a very good deal!* The only way they could, would be to pay down the existing debt - or to pay you money to take their property! Obviously, those are not very attractive options for most sellers. *The simple truth is, when too much money is already owed on the property, it can seldom be a good deal for you.* Don't waste your time fiddling with deals that don't show you a clear plan for making reasonable profits!

#### GETTING STARTED ON THE RIGHT FOOT

The very first thing I do when I hear about a property that becomes available, *assuming I'm interested,* is to begin what I call **“detective work”!** Sometimes my broker, Fred, will perform this task, but it took him four years of my coaching before he became snoopy (skilled) enough to suit my taste! Brokers and sales agents typically don't do the exhaustive research or *“snooping around”* like I insist must be done.

The biggest difference between me and most agents is that they accept the word of sellers as being mostly true! I accept it as mostly exaggerated and often untrue! It's never considered true until it's proven to me. I'm not trying to be overly critical here, but you must never forget this important fact of *investment life.* **Once the escrow closes and everybody gets paid, it's you, alone, by yourself, who must live with the deal you signed!** If somehow you've failed to uncover the true property expenses and it turns out they're considerably higher than you were led to believe, guess **what?** It's you alone who is now the stuckee! That's the reason I learned to become a *very snoopy house detective* early in my

investment career.

## THE MORE YOU KNOW - THE BETTER YOU CAN NEGOTIATE

**Motivated sellers** are not generally “dorks or dummies” like many late night infomercials would lead you to believe. Mostly, they’re just people who have gotten themselves in a financial bind. Also, high on the list of motivated sellers are folks who for whatever reason are lousy landlords. The tenants are driving them “bonkers”. I’ve purchased several properties from sellers who were actually afraid to take me to their property for a showing. Their own renters frightened them! *Knowing this kind of information is extremely helpful to me when I’m negotiating.*

When I snoop around a property that I’m trying to acquire - And I discover that the tenants are basically running the place without much supervision. There’s an awful good chance that **poor management or lack of landlording skills** is really the motivation for selling. If I’m right, I know that sellers experiencing this kind of problem are often more than willing to give me very *favorable terms* in exchange for immediate **“pain relief”**.

*Problem tenants who are out of control are worth big bucks to investors like me who know how to establish law and order!* Many sellers who find themselves in this predicament are willing to forgo traditional cash down payments in order to rid themselves of this unpleasant situation! I have long emphasized the value of solving problems in all my training materials. **People-problems pay big rewards to investors who can straighten out the mess.**

## DON'T FIDDLE WITH SELLERS WHO HAVE NO EQUITY

Properties that have been owned by the seller for a substantial period of time, **6 to 10 years or more**, will offer far greater opportunities for negotiating the selling price downward. The reason is because the existing mortgage debt has most likely been paid down over the years. *It's always to your advantage to negotiate a purchase price when only the seller's equity is at stake!* For example: Let's say the seller is asking \$250,000 — You can assume the existing mortgage of \$195,000. The balance or the seller's equity to \$55,000.

Let's assume you've done your homework and concluded that \$210,000 is the right price to pay. If the seller accepts, he will receive \$15,000 for his equity. He may not like it, but **he still gets something from the sale**. Now consider the situation if he had purchased the property only a year ago for a price of \$235,000. The down payment was \$20,000, so he still owes almost \$215,000 on the mortgage! *Your chance of buying this property for the right price of \$210,000 just flew out the window!* To do it, the seller would need to pay you \$5,000 to buy his property. Even if it would help the seller financially, emotionally it's almost too much of an obstacle to overcome. In short, this seller is not in a position to make you a good deal!

## TAKING OVER (ASSUMING) EXISTING MORTGAGES

Many buyers are hesitant to purchase properties with multiple mortgages and promissory notes on them. **I am exactly the opposite!** The more notes I can assume or *take over*, the better I like the deal! In fact, I am constantly on the look-out for properties with multiple notes. Quite often I'm even willing to pay a bit more for them.

First, let me explain that *private party notes or mortgages* are the kind I'm looking for - not mortgages from banks or regular institutional lenders. My detective work involves finding out who is owed the money on the notes (called the beneficiaries). *I want to know if they are rich, poor, out of work, live out of the area, young, old, do they have children who might need money for college and if so - how soon from now.* People always ask me at seminars — Why do you care about that stuff? I'm trying to determine whether or not I'll be able to buy the note back at a discount price once I become the owner of the property. Beneficiaries who need cash - or think *they do*, are the ones who will sell for big

discounts.

For example, let's say I purchase a property and assume or take over a private note with a balance of \$45,000 - with monthly payments of \$435 per month. The note was originally a 20 year term, but still has 14 years of payments left! Mrs. Smith, a 36 year old divorcee, holds the note. She received it from her divorce. Her only son, Johnny, is now 15 years old, a junior in high school. He has his heart set on attending college in a couple of years from now! As I see it - there's an excellent chance I'll be providing for Johnny's "higher education" when I make an offer to purchase the note for \$26,000 cash - - - *two years from now.*

### *ALWAYS VERIFY INCOME KNOW THE MARKET RENTS FOR AREA*

I have found tenants who are paying \$500 rent for a \$400 house. When you see the tenants, you'll often understand why. In one particular case, only four occupants were listed on the rental agreement, but I counted 12 people coming out the door one morning, about 9 A.M. while snooping around on the property. Sometimes you can get a good idea about who lives there by checking out the cars after dark. When I sense that negotiations to purchase a property are going my way, I spend more time driving by and observing what goes on at the property. The best word that describes how I conduct these observations is "**sneaky**"! *No calling ahead* like most real estate agents do for a "staged visit". *You can't really learn what's happening unless you sneak around a bit!*

If you plan to rent your properties to regular everyday tenants at *prevailing market rents*, you must find out exactly what those rents should be. *You can do this by matching the rents in classified ads to comparable properties in the same neighborhood as yours (or soon to be yours).* Some valuable information can be learned by this exercise! First, you will learn if the rents are too high or low for the property you are negotiating to purchase. Hopefully, *they're low* so you'll be able to raise them.

Equally important for your education — You will discover the right amount of income for the property. When you know exactly what the **true market income** should be for a particular property, it becomes a whole lot easier to figure out *what you can pay for it and still make a profit on the deal!*

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## **UNDERSTANDING MOTIVATION IS ESSENTIAL**

If I asked you to take your pick between being a rich garbage collector or a poor apartment owner, which would you choose? I'm not conducting a survey here, but my "gut feeling" is, you'd pick rich garbage collector. That's my answer too! Had the choices been between a rich garbage collector and rich apartment owner, than I'd switch back to apartment owner.

*If you think like me* — Rich is the first choice! My plan to get there has some flexibility. Obviously, I love real estate investing, but I'll be first to admit, the money has an awful lot to do with my love affair.

It's been my long-term observation that people who invest in real estate are not much different from those who invest in pizza parlors or buy carpet cleaning trucks. The reason this is so, I think, is because the motivation factors are exactly alike. Industrious folks are constantly looking for ways to get ahead financially and improve the quality of their lives. Many are highly motivated to leave traditional 9-5 jobs for an opportunity to work for themselves. Of course, it goes without saying, most all of us have a desire to end up financially independent after our working days are over.

### A THIN LINE BETWEEN INVESTOR AND BUSINESS

More often than not, *real estate investing* and *business opportunities* are not thought of as being the

same thing! Many people think of real estate investing as a long-term savings plan where you buy now, hold the property for many years and eventually sell for a *marked-up profit*. The major benefit they expect will come from appreciation over a long period of time. Certainly, that's a big part of most real estate investment strategies — ***But my plan is many times faster as you shall see!***

*Business opportunities*, on the other hand, often have more to do with buying yourself a job. For example — Buying a hamburger stand, becoming “The Rug Doctor” with your own special built steam cleaner truck, acquiring a franchised “Popcorn” route or buying a silkscreen “Tshirt” operation. Typically these kinds of businesses don't have much longterm appreciating value and they seldom provide anything more than steady employment for their owners. In several cases I'm familiar with — The operators feel quite lucky to earn what I would simply call AVERAGE WAGES. Quite often their actual take-home pay would be higher if they worked for someone else — Plus, they wouldn't have all their money tied up in the business.

*Let me say it this way* — Many folk~ who are dedicated to a variety of small “Mom & Pop” businesses work extremely hard for twice as many hours and earn less money than they would take home as regular employees. This situation can be a big trap for people like me and other entrepreneurs who often become stricken with a blind obsession to be our own boss, *doing our own thing!*

### YOU MUST ANALYZE REWARDS FOR THE EFFORT

If you're thinking about starting any small business or perhaps you're already involved in one, it might well be worth your time to thoroughly analyze the payoff. It's not the least bit uncommon for people to spend abnormal amounts of time, *often years*, pursuing a dead-end venture that will provide very little payback for all their efforts. After many years they end up with hardly anything left to show for all their hard work!

Here's a typical situation I see all the time! Let's say you purchase a “carpet cleaning” franchise. You now own a truck with a special-built steam cleaner mounted on the back. Next, you build up a customer list and work your tail off for the next 5 years or so. *Now it's time to ask yourself these questions --* What do you have to show for your efforts after 5 years? What is your business worth if you decided to sell out? What will your income be if you suddenly stop cleaning carpets? Do the words hardly nothing ring a bell? My guess is, you'll have a sore back, a worn out truck and a business with no more value than the day you started. Oh yes, *about future income!* I think you already know the answer to that!

### THE BENEFITS OF MIXING WITH YOUR OWN KIND

One of the reasons I enjoy attending *real estate seminars* and speaking at investment clubs so much is because I enjoy being around the kind of folks who are attracted to such gatherings. They're mostly my kind of people. I'm sure you've observed what I'm telling you here. I enjoy being around people who think beyond the end of their noses. They are people with vision!

Naturally, I meet a few “Seminar Junkies” along the way, but mostly I meet people who have initiative and “get-up”. They're “long haul” thinkers who are eager and willing to do whatever it takes to make a better “financial life” for themselves and their families.

One word of caution is in order here because we all need to hear it occasionally! **THERE ARE NO FREE LUNCHESES.** “Free Lunch” thinking must be erased from your thought process. **Making sound financial decisions won't happen until you sincerely believe and understand THERE AIN'T NO FREE LUNCHESES ANYWHERE!**

### BEING YOUR OWN BOSS IS FUN WHEN IT PAYS

It's my personal view that working for yourself is the “*ultimate freedom*”. It's extremely exciting when you can make big money doing exactly what you want, when you want and in a business you choose to

do it in! Many folks work long, hard hours in a no-future business. Eventually they end up discouraged when they finally realize they could be earning more money and working less hours for someone else.

There are many business opportunities that allow the freedom of working for yourself. However, many fail to provide adequate compensation. There is not thrill being your own boss if you can't make a decent living for yourself and family. That brings us to what I consider the best business opportunity today, "THE HOUSING ENTREPRENEUR".

## HYBRID OPPORTUNITY - HOUSES AND WIDGETS

*It's a very simple concept.* Take the best of several ideas and mix them together like one. Every successful business needs **short-term cash flow and long-term growth** or increasing value. Without this combination, business future is always uncertain. Many businesses have adequate cash flow to meet daily needs, but very little value or growth increase in the long term.

Take selling widgets for example. When everyone wants to buy them, sales are hot! The registers are ringing, but that's short-term selling. For long term, we must look at the value of business assets. Here we find a worn out delivery truck and a broken down "widget maker". The value is zip! *Additionally*, when these assets wear out, we now must have money set aside to buy new ones or the business is down the tubes, as they say.

Let's say we own REAL ESTATE ASSETS instead. Even as houses are wearing out (getting older), **they are increasing in value**. If sales suddenly drop off, but our business assets are houses, obviously there is still value remaining in the business,

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The combination of a *cash flow business that owns real estate assets* is truly the best of both worlds. In my case, tenants are my customers. I provide residential housing for my customers. My business assets are houses. Rather than losing value the more they are used, instead, they are becoming increasingly more valuable. Let's say my stream of rental customers slows down from time to time — Will I go broke? Not very likely because my real estate assets have been continually growing in value. ***That value is easily converted to cash if I need grocery money*** — Either borrowing on my equity or selling a house or two!

Houses are much better than worn out machines. Since my business assets are real estate, my product is always growing in value. From a practical standpoint, they never wear out if I keep them painted. As the "cocky" ex-CEO of the Chrysler Corporation used to say, — "Show me a better deal anywhere and I'll buy it". I think my real houses are a better deal and that's exactly why I buy them!

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