

Investing in Real Estate

Why Soft Markets are GREAT Markets

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Investing in real estate has changed in many markets in our country. If you are like me, you live in a real estate market that has gone soft. There are still some areas in the country where homes are appreciating nicely, but nothing like it was just a year or two ago. There were a lot of self-proclaimed real estate gurus that popped up during the boom times telling you how to make HUGE PROFITS in real estate. Back then, during the up cycle, investing in real estate was so easy. You could throw money at almost any piece of real estate and be practically guaranteed to make a profit. It seemed like anyone who had flipped a couple of houses and made a profit was an “expert” investor.

Times are different now. Investing in real estate takes a little more effort. Investors that haven't weathered down cycles before are struggling because all they know are massively appreciating markets. All too many of those self-proclaimed gurus lost their shirts when the markets changed. Those ads that go “I made \$256 Million in real estate in 4 weeks with no money down” are a whole lot less believable. Okay, \$256 Million is an exaggeration, but you know what I mean.

So the question is, “How do we still go about investing in real estate and make profits?” Can it be done in these soft markets?

The answer to that question is quite simple. I can say without question, without hesitation, the answer is: YES! ABSOLUTELY!

I have been investing in real estate for more than 20 years. I have seen up cycles and I have seen down cycles. I have made money and been successful in both. I can tell you several things about down markets that may surprise you. First, experienced real estate investors will tell you that more money is made in down markets than in up markets. It's true, MORE MONEY is made in DOWN markets than in up markets! Second, experienced investors PREFER to do the bulk of their investing in DOWN markets. There are a number of reasons for this but the big ones are that there are more motivated sellers in down markets and the competition (other investors) pursuing these motivated sellers is LOWER. It's a double bonus.

Down markets produce more deals and less competition to get those deals.

One of the investing techniques I specialize in is Lease Options. Lease Options are one of the absolute best techniques for investing in real estate in down markets. I'll say it again, because if you are looking for ways to get involved with real estate investing you need to know this, Lease Options are one of the absolute best techniques for investing in real estate in down markets.

Let's take a look at why.

I've already said that down markets produce high numbers of motivated sellers. Right now in Michigan, it's very common to see a house listed on the market in two ways, both for sale and for rent. They are listed this way because the sellers KNOW how bad it is and they want someone, anyone, to cover their mortgage payment. These double listings SCREAM "Motivated Seller!" Now, not every single one of these is going to be an excellent Lease Option deal. But you know what? That's okay, there are plenty to choose from!

The critical part in selecting your Lease Option candidates, in an up market or a down market, is creating WIN-WIN-WIN situations. The seller must be satisfied with the deal, you must be satisfied and the end buyer must be satisfied. When investing in real estate, this is what makes us successful. How does this work?

To create a WIN for someone we must meet their core need. A motivated seller's goal is to sell their house. Eventually they need their mortgage paid off and the deed transferred out of their name. If they are willing to rent the house as well as sell it, they are telling you that having their mortgage paid each month is more important right now than actually getting the house sold. If we can find a tenant buyer for them we are satisfying their core need of paying the mortgage each month and eventually selling the home. This is a WIN for the seller.

Our end buyer is looking for a home to own. Their current situation prevents them from getting a mortgage immediately but they plan on being able to get a mortgage soon. They want a home now. They don't want to wait to get their house. By allowing them to lease and then purchase the house we are meeting their core need. This gives our buyer a WIN.

Before we talk about what makes a WIN for us as an investor let's talk a little more about mortgages for our end buyer. There has been a lot of news lately about sub-prime lending woes and how lenders with riskier loans are facing high rates of foreclosure and may be going bankrupt. As a result it is getting much harder for people with poor credit to obtain a mortgage. It is also getting harder for ANYONE to obtain a mortgage with 100% financing (i.e. no money out of the buyer's pocket). This may sound crazy, but this is actually a good thing for us when investing in real estate.

When investing in real estate by doing Lease Options it is harder for us to find quality tenant buyers when almost anyone who can fog a mirror can get a mortgage. Not only that but because it was so easy to get 100% financing most buyers save nothing and are unable or unwilling to pay much for an option fee. With the lending companies tightening their belts I expect we will see a growing population of QUALITY tenant buyers who are able to pay HIGHER option fees.

The flip side of this is that because lenders are tightening their belts your tenant buyers will need to work harder to restore their credit. It may take as much as 2 to 3 years for some tenant buyers to be able to qualify for mortgages instead of just 1 year as we had seen before.

The bottom line is when investing in real estate by using Lease Options the difficulties of the mortgage lenders are just another reason why this down market is a GREAT time for us investors.

Now let's look at the last part of our WIN-WIN-WIN equation -- the WIN for us, the investor. For us to WIN we need to make a profit. The profit comes both from the equity spread between your option price to the seller and the buyer's option price to you as well as any monthly cash flow in the rental payments. With Lease Options it pays to be creative. You'll find a lot more deals and be a lot more successful investing in real estate if you practice creativity in your structuring.

The most common motivated seller we encounter is the one who has little to no equity in his home. Too many real estate investors get calls from sellers that only care about "What's it worth?" and "What do you owe?" If the numbers are too close together, they say, "Sorry I can't help you." Click.

What if you pursue it a little further with a creative mind? A good question to always ask is "What are your monthly payments?" If the payments are lower than rental rates you may be able to make some monthly cash flow.

Another good question to ask is, "How soon do you need to sell the house?" You may want to ask this question a couple of times while you are talking to them. You could be surprised to find that the number grows longer each time you ask. There aren't too many markets I can think of that stay down forever. Eventually the house should start appreciating again. If your option period to the seller is long enough you can capture appreciation to make your profit.

What about this – "Are you willing to bring money to closing to sell your house?" And if their monthly payment is higher than what you can rent the house for, "Are you willing to pay the difference between the rental amount and your monthly payment?" These two questions may seem brazen, but ask yourself, what have you got to lose? If the seller is fully leveraged on the house or their payment is higher than the rental rate you have nothing to lose, because if they aren't willing to make concessions then you can't help them! Certainly some of us feel

awkward in asking these questions, but trust me, if you ask this question 30 times, no matter how embarrassed you might feel at the beginning, you will start to feel much more comfortable by the end.

These are just a few creative questions you might come up with to try to find terms that will allow you, as the investor, to make a profit, a WIN for you. When you add all of three of these together, meeting the seller's need, meeting the buyer's need and you making a profit, you have created a WIN-WIN-WIN. This is what you MUST do to be successful when investing in real estate with Lease Options.

Do you see how much BETTER it can be to find deals in down markets? Motivated Sellers are **EVERYWHERE** and there are **FEWER** investors competing with you. Combining these two factors allows you to choose your deals with greater care. Always "Cherry Pick" your deals in a soft market. This is why experienced investors, who have been in both up markets and down markets, prefer the down markets. Soft markets can provide some of the best deals when investing in real estate.