

Chicago Creative Investors Association

PO Box 495
Glen Ellyn, IL 60138
(630) 858-4663

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Owner Financing

How to make a seller your blue ribbon investor

Article by our February 20, 2005 Speaker

By Greg Pinneo

I have been investing in Real Estate for 30 years and never lost money on any Real Estate transaction that I have ever done. I have never declared bankruptcy. I don't deliberately mislead my potential sellers, sellers or tenants and I don't prey on the less fortunate. I have never missed a closing date that I have committed my signature to and I never will. I don't say this to boast, I only mention it because we need to establish a foundation by which we set the stage for the greatest capital opportunity in Real Estate investing; involving the seller in the financing of your purchase. In order to follow this path you must understand one thing so fluently that it's second nature. That one thing...it's ALL about relationships.

Normal beginnings:

I didn't grow up with a silver spoon. I didn't inherit a vast family fortune. I grew up in a very normal family and worked for everything I have made. I worked my way through high school in construction and college as a Real Estate agent and investor. I graduated with a communications degree. I am not a PhD. I am not an attorney. I don't have a CPA background. I have committed to this sport of Real Estate since the age of 17. So why then does an old carpenter live a life that most only dream about. The answer - I was mentored to think and see differently. I was shown a path less traveled. I was taught to treat people how you would like to be treated. Most people treat sellers as the opposition and never develop any lasting relationships. I can remember the names and lives of almost all, if not all of my sellers. This means I have to get face to face with the seller. Of the last 100 properties I have purchased, only two were listed. These were my two least favorite transactions in 30 years investing. When everyone else around you is doing something, do you join in or do you see an opportunity to differentiate yourself? I have no fear of competition but I want to stand out from the masses.

Greatest Opportunity:

I believe the greatest opportunity of the here and now is customer service. The mere phrase "Customer Service" has become an oxymoron in the business world. How many times have you had a computer answer your call, ask you to input your account number, last four digits of your social security number and pass code then finally transfer you to a real person...only to have that person then ask you for your account number, last four digits of your social security number and your password. I know that always makes me feel special. They haven't even asked my name yet just my binary identity. How many of you have had to ring up your own groceries or have tried to check yourself out of a large chain home improvement store?

Now think of those places that cater to your every whim and how that makes you feel. You know what I am talking about, those nice restaurants that even if you ordered a tuna melt would say, "Gosh, that sounds great...absolutely... do you want one or two pickles on the side?". We have a place in Seattle that only sells doors. When you walk in there is a team of people to handle any size order and any type of order. Name your material, name your size and name your quantity. They make them on site and can customize anything. Where do you think we do business, the home warehouse or The Door Store?

The point to all this is when you treat people like people magic happens. Relationships with your sellers will unlock endless options down the road. I have one student who bought his first home a couple years ago. It was a listed property but, using

what we teach, he deliberately engaged the seller and put a face to an offer sheet. The seller took his offer even though she had two offers that were both \$15,000 higher than his. Why would someone do this? Because the seller felt comfortable with him, the seller felt they were wronging him if they took someone else's offer just for the money. The seller wanted to pass the baton to someone they knew would respect what they had worked so hard to maintain. So why do so many people say that deals like this can't be found anymore? Perhaps they aren't in the right business.

I'm in the amazing business:

If you want to find great deals you need to get out of the problem business and get into the amazing business. The amazing business begins with you committing to building a relationship with everyone you meet. We are not going to just look for people with problems. In the amazing business we want to work with everyone. If you are just looking for people with problems you are showing up to your job site with a bunch of shovels. That's great but we're going to teach you how to show up with an earthmover. Will we find some people with problems, sure, but we're also going to find people that don't have problems that just want to move to the next stage in their life. We are going to build a relationship with all types of people. We're going to teach you how to laugh to yourself when people say there just aren't good deals out there anymore. Just smile and agree with them, tell them how right they are. Remember, we're not in the deal hunting business we're in the amazing business.

The Stage is Set:

Now that we have built a foundation by which we will conduct our business it's time to learn why it's important to you as an investor. Analysis paralysis is a problem that many seasoned and new investors struggle with each day. So often we see investors wholesale a great deal just because they fear the ability to come up with funds to close it. I can't tell you how many stories I've heard where people took \$3,000 when they could have made \$30,000. Wholesaling, while a great way to raise capital and make a living is a tough way to develop real wealth. You're only as good as your next deal. Your goal in this game needs to be wealth building and passive income. The best way to accomplish passive wealth in Real Estate is to buy and hold. As your loan balance decreases and appreciation continues, real wealth is created. To really unlock the riches of leveraging appreciating assets, use of owner financing is crucial. Owner financing tees up the following possibilities and more...

- A customized deal with your conditions and your clauses
- Possibility to substitute the security
- No due on sale clause
- Negotiable interest rate and terms
- No pre-payment fees unless otherwise agreed on
- No points
- No set up fees
- Customizable
- Opportunity to renegotiate without additional fees
- Little to no qualifications
- Flexibility (Payment date, amortization schedule, balloon payments etc.)
- Ability to wrap another note around the original note
- Additional control

Living Deliberately:

So many people are fearful of engaging the seller in any meaningful life conversations. In order for owner financing to work for you, you're going to need to understand the seller's situation. This means actively engaging the conversations, not about Real Estate, about their life. The longer you stay off the topic of Real Estate the more likely it is that your seller will provide you with the reasons why they should participate in the financing of your purchase. It is up to you to now fill in the colors of the paint by number picture they have just given you. What are some reasons why they might participate in the financing of the property?

- Higher interest than they would likely get in the bank
- Delay capital gains tax
- Medicare/Medicaid cash asset implications
- Monthly income
- Willable, transferable, sellable

- Simplicity
- Know collateral
- Their relationship with you
- Setting up their estate, perhaps they don't want kids to receive huge lump of cash
- They are also investors and wouldn't dream of selling for all cash
- People want to help other people
- Don't like banks or the way they do business
- They have either bought or sold this way in the past and had a positive experience

Case Studies:

This isn't theory. This is what I have done everyday of my 30 year investment life. Remember I'm in the amazing business. Here are 4 examples of owner financing and one example of a simple buy and flip that illustrates how making this about people seals the deal.

- 1st West: Single Family residence. Owner financed, former owner still lives on the property but doesn't pay rent. How does this work for me as an investor?
- Yale: Multiplex that the seller wanted interest income, deferral of capital gains and to set up a co-beneficiary should anything happen to them.
- Greenwood: Owner financed multi-plex. What's in it for the seller? Why would they carry the financing?
- Franklin: Multi-plex with dual owners, one wants all cash, one wants owner financing. How meeting face to face solves the equation for both of them.
- 4th West – A simple flipper, but it's all about being face to face with the seller.

Integrity That Gets Results:

I am committed to treating people with respect, honesty and integrity. I am committed to making every transaction a good one for the seller and for me. Why? It's because I know that when they share their experience with their friends, I get the next phone call. I also want to feel good about what I do and how I do it. I don't want to get up in the morning knowing that today I need to take advantage of someone's misfortune to put food on my table. Yes, I'll help solve peoples' problems but what I am looking for is great buildings in great locations with the right terms. Because of this system, I have never lost money on a Real Estate transaction in the 30 years.

Once I purchase the building, I treat my tenants with respect and dignity. My tenants in fact are like a farm team for my flips. I often call my tenants when I am selling a flip property or assigning a deal. Why? Again, it is because I have a relationship with them. I know that they would like to own a home and I know whether or not they are qualified buyers. I am able to do this because I only buy investment property in classic wonderful areas. For many of my buildings there is a waiting list, even in Seattle where the job market is soft and home ownership is high. I find that romance in a good location is the largest factor in keeping the building full. You know it too, intuitively. You know it when you say to yourself; I can see myself living here. I could walk to the coffee shop in the morning and grab a latte and I could sit out on the deck in the summer and watch the boats go by, and so on. When it grabs you in the gut, don't you think that your potential tenants are drawn to the same location and the ambiance too? Of course they are. Isn't it a lot easier to keep that building full when it's in a romantic location? Of course it is. Yet, why do so many people buy in bad areas? Because they think they have to have a lot of money to buy in the good ones. If you master the art of owner financing you can buy the right building, in the right location where the terms work for you and for the seller and then money is no longer the issue.

Remember, Real Estate investing isn't easy. Anyone who tells you it is easy isn't showing the full picture. It takes hard work, persistence, professionalism and education. In order to do this for the long haul you are going to have to fall in love with what you do. There aren't many people who create wealth from the ground up that aren't passionate about their venture. In order to get passionate about what you do, it has to be romantic. If it's not romantic what's the point? You need to know why you want to be a Real Estate investor. More money is not why you're doing this. Why do you want more money? Is it to support your family? Is it to achieve freedom? Is it to get out of a job you hate? Is it to prove to yourself you can follow through on something? Is it because you want to pay for you children's education? Those are all very romantic reasons to be passionate about this sport.

Now that you have a sense of your why, come hear how to make Real Estate investing work for you. I commit to you that I will spend myself teaching you in the time we have together. I will teach you what I do and how you can do it too. I will spend myself making this the best Real Estate education you have ever received, bar none. I will show you how to get on the path to your dreams.

Thank you for taking the time to read this and I look forward to meeting you in Glen Ellyn.

Living Deliberately;
Greg Pinneo

See Greg live and in person at the February Chicago Creative Investors Association meeting. See www.CCIA-Info.Com for details on time and location.

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