There are <u>four</u> major financial advantages of owning rental property:

1. Cash Flow. This is usually defined as the difference between the monthly income and the PITI (principle, interest, taxes and insurance) monthly payment. This one gets all the conversation, but is not the most beneficial until the property is paid for. You should also allow for repairs, maintenance and vacancy loss. You will get maximum cash flow if you are the manager.

2. Equity build up from the loan being paid down each month, depending on the term, and interest rate of the loan. This can be several hundred dollars a month and with a fixed rate amortized loan grows bigger every month.

3. As our government prints money to solve the world's problems we will have inflation. Real Estate is one of the few investments that benefits from inflation, as it pulls up the property values and rents go up. Also, if you have a fixed amortized rate loan your cash flow grows bigger as your rents go up.

4. Tax savings. You can depreciate your property as if it was a piece of equipment wearing out and take a number off your income tax that is not a real number but saves you real dollars. This is the main reason I started investing in rental property. It was very distressing to work so hard and pay more than one third of my income in taxes every year. Not paying taxes legally is real money. You can pay taxes and the government will provide housing for people or you can provide housing for people and not pay taxes.

<u>EACH</u> of the above benefits should be figured as a return on your investment, and each one may be worth more to you in different seasons of your life. The great thing about real estate investing is that <u>YOU GET ALL FOUR ALL THE TIME</u>.

"There is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich and poor, and all do right, for nobody owes any public duty to pay more than the law demands." -Justice Learned Hand

GOALS SHOULD BE:

1) Attainable
2) Challenging
3) Measurable
4) Co-Authored
5) In Writing

To accomplish this goal I will take the following action

6 BASIC GOALS

1) Spiritually

Goal ______________________________ Action ______________________________

2) Family

Goal ______________________________ Action ______________________________

3) Physically

Goal ______________________________ Action ______________________________

4) Mentally

Goal ______________________________ Action ______________________________

5) Socially

Goal ______________________________ Action ______________________________

6) Financially

Goal ______________________________ Action ______________________________

POINT SYSTEM FOR NOTHING DOWN PROPERTY SELECTION

THE FIVE MAJOR DECISION FACTORS	POINT VALUES		
	Poor	Average	Excellent
1. SELLERS MOTIVATION AND FLEXIBILITY	1	2	3
2. LOCATION	1 (never)	2	3
3. FINANCING	1 ONLY IF— SEE 3RD COMMANDMENT	2	3
4. PRICE	1 ONLY IF— SEE 4TH COMMANDMENT	2	3
5. PROPERTY CONDITION	1 ONLY IF— SEE 5TH COMMANDMENT	2	3

ANALYSIS CRITERIA:

— Analyze and assign a point value to each factor of a property.
— If in doubt about a point value always pick the lower number.
— Add up the numbers and total.
— The lowest acceptable score is 9, the highest possible is 15.
— Greater fools always buy property in the 9,10,11 range. Great
— investors always buy property in the 12,13,14,15 range.

THE TEN COMMANDMENTS OF PROPERTY SELECTION:

1. Never buy a property in a poor location . . . not under any circumstances!
2. Never buy a property with a point total less than 9!
3. Never buy a property with poor financing unless it has excellent price!
4. Never buy a property with a poor price unless it has excellent financing!
5. Never buy a property in poor condition unless it has an excellent price and you have the capital, know-how (can be hired), and mental toughness to want to improve a property!
6. Never buy a property unless it has at least one excellent factor (score of 3).
7. Don't live the greater fool theory. Stay as far from the line as possible. A nine is a marginal property. The higher the score the more desireable the property. Don't buy only for tax shelter. Most tax shelters are nines.
8. Never borrow partnership money to invest in a marginal property.

   Never buy a property that has more than two poor factors (points = 1) unless under the extremely rare circumstance of an immediate condo conversion planned to take place after the purchase.
10. Never buy a property unless you are committed to *following through* on the major and minor details of property management, whether you handle the management or hire a professional company.

THE FIVE MAJOR DECISION FACTORS WITH POINT VALUE EXPLANATIONS

1. SELLERS MOTIVATION AND FLEXIBILITY.
   a. Poor (1): Won't budge price or terms. "Take it or leave it." Doesn't need to sell. Not anxious at all. Not worried about taxes. In the driver's seat.
   b. Average (2): Might consider a small discount in price. Needs cash new house or property. Bills, etc.. May carry a small second or contract, but leery of unusual deals.
   c. Excellent (3): Will discount significantly for lots of cash. Needs cash for pressing items (behind on payments, taxes, etc.). Doesn't need cash BUT has other problems (management, transfer, time issues, divorce, retirement, etc.) Classic "just doesn't want it."
2. LOCATION
   a. Poor (1): No pride of ownership, Slum type tenants. Junk and debris in streets, High crime. No classy shopping areas close by. Declining abandoned buildings and boarded up properties. Close to major streets, industrial areas, or commercial zones (across the street), Far from employment centers or commuter accessibility
   b. Average (2): Maybe older neighborhoods, but clean. Close to shopping, churches, schools etc. but not very classy. Working class tenants, clean, neat, established. Maybe poor location on the upswing with many pioneer fixer-uppers leading the redevelopment. Older suburban neighborhoods also. Nicer inner-city neighborhoods. No encroaching commercial spots.
   c. Excellent (3): Easy accessibility to all necessary amenities and transportation. Middle class, suburban neighborhoods. Not on busy streets, Cul-de-sacs ideal. Properties nearby very similar in price. Good foliage and landscaping except in brand new subdivisions. Only high class inner-city locations.
3. FINANCING
   a. Poor (1): More than 15% down. Seller needs lots of cash and wants all his equity. Or property will have heavy negative cash flows for more than two years. Or, there will be a large balloon payment due in less than three years from date of purchase.
   b. Average (2): Financing required from an institution with up to down of buyer's money Credit checks. Borrowings from banks and financial institutions on secured loans for part of the down payment (high interest, high monthly payment terms). Seller carries paper for small amounts, Other techniques for small amounts of the down payment. Some cash required from buyer. Balloons for more than 5 years in future.
   c. Excellent (3): Less than 5% of buyer cash involved. Seller carries most of the financing at lower than market rates with no balloons. No negative cash flows projected beyond the first year. Contract sales, no credit checks. Seller refinances his own property. Second mortgage crank. Discounts of existing loans.
4. PRICE
   a. Poor (1): As much as 10% or more above reasonable market price.
   b. Average (2): Within + or 5% of market price.

c. Excellent (3): At least or more below market price

5. PROPERTY CONDITION

a. Poor (1) Needs major cosmetic and structural improvements to bring the building up to minimal rental standards. At least 10% of purchase price will need to be spent immediately to make unit rentable. Improvements do not significantly improve the rent roll because of quality of tenants and location. Improvements not to increase value more than 10% above purchase price. This kind of property usually associated with poor locations although it is possible to find this kind of property in excellent locations where prices are so high that mprovements do not increase value but just make units acceptable to renters. This can be viewed as making a larger down payment for improvements) and receiving an averaged priced property.

b. Average (2): This is the true fixer-upper! Cosmetic improvements would be nice but not immediately necessary. Costs not to exceed 5% of the purchase price. Cosmetic improvements immediately affect the value upwards and make the property more desirable, saleable anc attractive. Not much structural work (if any) is necessary only paint, landscaping, drapes and other inexpensive improvements. This type of property should not be bought if the buyer does not have the time or mental capacity to undertake supervision of improvements, but this is unquestionably the of property which can prove to be the most profitable in the short run. The worst house in the best neighborhood.

c. Excellent (3): with recent renovation, No problems, clean inside and out with good landscaping. New components to replace major items May have been a recent fixer-upper project which is being sold by a "don't wanter" at an excellent price. No work necessary before renter moves in. Solid property with a hassle factor of zero. Quick closing, quick rent-up, quick cash flow.

This information copied and distributed from my early study notes in the real estate investing business, copyrighted 1982 The Allen Group

HAROLD BUEHLER'S MONEY $ MACHINE

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From the desk of...

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MONEY MAKER'S SEMINAR

Thanks to Richard Scarborough and his lovely wife, Ann, for sharing their vast knowledge of real estate and proven principles of success with us at the May Seminar.

EXERTS FROM RICHARD SCARBOROUGH'S SEMINAR, MAY 29

1. The 70-10-10-10 Rule. The 2000 year old secret formula of success.
   a. you must learn to live on 70% of your earnings. In order to do this, you must either increase your earnings or decrease your expenses. In the beginning of your journey of success(by the way success is a journey not a destination) you'll probably find it more practical to decrease your expenses until you have learned the how to's of increasing your income. Hence, in order to increase your income, you must first educate yourself so that you will know how to increase your income.
   You must first decrease your living expenses, to get the additional income, to educate yourself, to make more money.

   b. What about the 10-10-10? The 30% you don't live on should be spent as follows: 1. 10% on ecucation, 2. 10% on charity, 3. 10% on investing. The 10% on ecucation will teach you how to invest the other 10% to get the greatest return. The 10% spent on charity sets into motion powers and forces that we cannot explain but which in fact begets success.

2. Three variables which enhance wealth are <u>time, captial, and rate of interest</u>. How does one increase these variables?
   a. Time- be a student of time management. Remember, we all have 168 HOURS in a week. How do you use yours?
   b. Capital-Sacrifice or cut back on expenses will for most people give them the starting capital.
   c. Interest rate- Through education you can learn how to increase the rate of return on your money.

3. Setting Goals. Goals should be attainable, challenging, measurable, co-authored, and put in writing. The 6 basic goals are as follows: Spiritual, family, physical, mental, social, and financial. A goal is of no consequence without a planned action to achieve it.

RICHARD, THANKS AGAIN FOR THE INCREDIBLE <u>WEALTH</u> OF INFORMATION.

Some ideas for buying homes off the Realtors MLS system by Richard Scarbrough

I hear all the time from investors and agents "There are NO good deals in the MLS" Really??? Here are a few we have done, AND on each one THEY HAD HIGHER OFFERS.

2515 Arthur Rd. Germantown one story 4/3 Listed 380K, we bought 330K holding as a rental
84 Berryfield Collierville Listed 225K, we bought 210K, sold 250K, 14 days closing to closing
2982 S Germantown Rd Listed 365K 2,375 days, we bought 210K, lived in it, then sold 350K
8110 Goringwood Lane Germantown Listed 263K, we bought 230K, lived in it, then sold 300K
2945 Oakleigh Lane Germantown Listed 260K we bought 225K, lived in it, then sold 360K

So as they say "The Devil is in the ______ so here are a baker's dozen of them?

1) What is one of the first things a seller sees on a contract? So what's in a _______
2) How much _________ _________ do you ask for?
3) How much _________ _________ do you offer?
4) Is your offer contingent upon a _________ _______ and any _________ the seller might do?
5) Is your offer contingent upon an _____________ and any ________ the seller might do?
6) Is your offer contingent upon an __________ as to _____ and any possible _______ ?
7) Is your offer contingent upon final _________ _______ from the ____________ ?
8) How much of your ______ _______ ________ _______ are you asking the seller __ ____
9) How ________ can you ___________
10) What is the ________ of __________
11) What _________ _________ are you using?
12) Offer a ________ they might _________
13) Work backwards to solve the __________ ________ as to why they are selling.

Richard Scarbrough is a 40+ Year Investor, Realtor Emeritus and active Real Estate Broker with Best Real Estate Co. He has bought, rehabbed and sold over a thousand homes and apartment units and learned a wealth of information by making and losing money. If he can assist you with buying or selling real estate, he will give you lifetime real estate investing tech support. If you want to visit and not use his services, you can come to a subgroup meeting, free concert or car show. For private consultations, he requests that you write a $100 per hour check to the charity of his choice. You get his information and a tax deduction. You also can go online to youtube.com and search "Richard Scarbrough Memphis" as there are several videos of him, one of the best is "MIG 2014 Presidential Address", which is 33 minutes of his real estate management advice. Please call him at his home office anytime, 901-753-3491. (This is a land line so do not text). Thank you.