



# NATIONAL REAL ESTATE INVESTORS ASSOCIATION

*A non-profit Trade Association serving the Real  
Estate Investing Industry for over 30 years*  
[www.NationalREIA.org](http://www.NationalREIA.org)

# Real Estate:

*Find the Best Real Estate  
Strategy for You!*



# Real Estate: *What's In It For Me?*

Many people are interested in real estate, but don't really know much about it. They know that it seems that a lot of people have made a lot of money in real estate (or achieved other goals using it), and they wonder if maybe there could be something in it for them, too.

National REIA wants to help you understand a little more about the real estate business and real estate investing. We've developed this report so you can get an overview of multiple investing strategies and determine whether any of these areas of real estate business or investing sound interesting to you. All of the strategies in real estate we cover in this report are actually used by REIA members. When you join us at a monthly meeting you can talk to us and learn even more.

**Here are some areas of real estate discussed in this report:**

- Landlording
- Wholesaling
- Rehabbing/Retailing (Flipping)
- Discounted mortgages and notes
- Private money and hard money lending

There are many more things you can do in real estate, including being a real estate agent or broker, an appraiser, or a home inspector, and buying/selling on creative terms. Although these are beyond the scope of this report, we at National REIA would be happy to discuss these with you as well.

## **Real Estate Business vs. Real Estate Investment**

Is real estate a business, an investment, or both?

The correct answer is "Yes."

The "business" of real estate is generally referring to an ongoing, hands-on strategy. This is usually done using techniques like wholesaling, retailing, and flipping (buying/rehabbing/selling) property. It can be a great way to make a living, but if you

stop working at your real estate business, the income will stop too.

When we talk about "investing" in real estate, we typically mean buying and holding real estate long-term, which generally means you are acting as a landlord, or landlording. When investing in real estate, we talk about tax advantages, return on investment (ROI), and appreciation.

Many people operate a real estate business and invest in buy-and-hold properties at the same time, but it is helpful to keep the two concepts separate in your mind. In any case, you can participate in real estate full- or part-time.

## **Goals:**

What are your goals? You need to think about this and come up with your own answer before you actually proceed to involve yourself in real estate as a business or investment.

Below are some common goals that you may want to achieve through real estate:

- Higher income
- Tax benefits
- Self-employment
- Personal fulfillment
- Passive income
- Increased wealth
- Supplemental current income

At this point we'll begin an overview of different types of real estate businesses and investing. National REIA has experts who are involved in these various areas of real estate, and they would really like to speak with you at a monthly meeting. You can also find more information on these and other investing strategies at [www.nationalreiau.com](http://www.nationalreiau.com).

## **Landlording**

*Description* - Landlording is the purchase of and holding of real estate over a period of time. It is

often referred to as “buy & hold” or as the “get rich slow” technique.

**Pros:**

- **Tax advantages** – This is a huge advantage to buying and holding real estate. The government has setup the game in such a way that owning real estate long-term as an investment can save you significantly on your taxes.
- **Appreciation** – Unlike almost everything else that you purchase in life, real estate historically goes up in value, not down. Since real estate tends to go up in value, it can be a great hedge against the increased erosion of your net worth due to inflation.
- **Cash flow** – Hopefully you have purchased the property “right,” (with the right terms and the right financing) so that almost every month you have a positive cash flow. Over time, if you own enough properties, this can fully support you and your family. Generally speaking, there isn’t much money left over in the early years of owning a property, but the finances improve as your tenants effectively pay off the mortgage for you.
- **Leveraging / Other People’s Money (OPM)**  
- When you purchase a property using a sensible amount of leverage (borrowing OPM), you are minimizing the amount of money you are investing and getting a higher return on the cash you have invested without excessive risk. You are also using OPM by using tenants’ rent to pay off your loan over time.
- **Wealth building** – Due to tax advantages and that real estate typically appreciates, buying and holding property long-term typically will help you increase your net wealth. It is sometimes referred to as the “get rich slow” technique.

**Cons:**

- **Tenants** – If you talk in depth to experienced landlords, they will probably agree that a majority of their tenants have been good. However, it only takes a few bad experiences to dishearten one on being a landlord. Many people avoid putting on the landlording hat due to challenges such as

trying to collect rent on time and property upkeep.

- **Liability** – Landlording increases your chances of being involved in a lawsuit. Most people think the landlord is “rich,” and thus the landlord becomes a target for lawsuits. You can take steps to minimize this risk.
- **Time intensive** – Being a landlord takes time. You can minimize this if you are able to hire a manager. Some way or another the property must be maintained, managed, kept occupied and the bills paid.
- **Expenses** – It takes money to maintain real estate. You must have the financial ability to replace the roof when it needs replacing, fix damage from a pipe breaking, and weather some of the ups and downs of owning property long-term.

**Skills needed:**

- **People skills** – A landlord deals with a wide variety of people, so you will need to relate to and negotiate with your tenants, repair people, contractors, insurance representatives, bank officials, politicians, etc.
- **Fix-it skills** – Knowing how to repair and maintain your property is invaluable. Whether you decide to do the work yourself or hire someone else do it, you should know as much as possible about how to install drywall, fix a toilet, install a faucet, repaint a property, and so on.
- **Financial skills** – You will need to keep accurate records of the income/expenses associated with each property. This includes knowledge of tax-related issues. It is important to have a good CPA on your success team who will help you in these matters.
- **Planning/saving skills** – This is a specific financial skill but an important one. If you are someone who spends every dollar as soon as it hits your hand, then you will have problems being a landlord. You must keep a “rainy day” fund for when the roof needs fixing. And you must have the skills to plan the maintenance and improvement of your property.

### ***Time needed:***

- The time needed to be a landlord varies widely depending on factors such as the number of units owned, the kind of property owned (single family vs. multi), and whether you plan to make repairs yourself. Relative to some other areas of real estate, landlording can be fairly time-intensive. Often it will be in spurts. A property may require no time for months, and then need your undivided attention for several weeks in order for you to repair and re-rent it.

### ***Cash needed:***

- Typically landlording requires seed money. How much will depend on your method. Cash required for buying property can be minimized if you are successful in using some creative purchasing techniques.
- Once you own or have “controlled” the property, you may need money to fix it up prior to renting it out.
- You will need money to keep the property maintained and to pay taxes, insurance, and the mortgage. If you purchased the property “right,” the rents from your tenants should cover all these costs and leave you some money left over for your efforts.

## **Wholesaling**

**Description** - As a wholesaler, your job is to find a motivated seller who has a pressing need to sell his or her property. You negotiate with the seller and enter into a purchase agreement. Then you find a buyer who will pay a little more than you have contracted for, and you keep the “spread.” There are various valid techniques for doing this, including “buy-don’t fix-sell, buy make minimal or only urgent changes and sell, etc.” The other techniques are beyond the scope of this report.

### ***Pros:***

- **Minimal money needed** – Wholesaling requires very little money, unless you choose to pay for advertising in the hopes of getting motivated sellers to call you.
- **Income** – This varies, but there is no limit to the number of properties you can wholesale.

- **No ownership responsibility** – Using some techniques, you never actually purchase the real estate, but transfer your purchase rights to the end buyer.

- **Minimal liability** – Your liability is minimal assuming you have a properly written purchase agreement.

*\*\* Remember that as a wholesaler you are focused on the CONTRACT, not the real estate itself when you are selling the property. As you have not taken possession you cannot sell, or even market the property. Attempting to do so without a license is illegal in most states.*

### ***Cons:***

- **Wholesaling is highly regulated** in most states. You must know the law in your state and act accordingly.

- **Time intensive** – Since you are a “deal finder,” when you stop working to find deals, you stop making money!

- **Business not investing** – This is a way to make money. You are in the business of being a wholesaler; you are not “investing” in real estate.

- **No tax advantages** – Since you aren’t holding the property and renting it out, you do not get any of the tax advantages of buying and holding rental property. Furthermore, the money you make wholesaling is considered “earned income” and will be taxed by the IRS as such.

### ***Skills needed:***

- **Negotiation** – You will need to negotiate with sellers when you are putting the property under contract. Likewise, you will need to negotiate with your buyers.

- **People skills** – These are an important part of your negotiation skills.

- **Analytical skills** – You need to be able to determine what the property will be worth after it is fixed up, accurately estimate repair costs, and determine your maximum allowable offer (MAO).

## Buy/Fix-up/Sell (Flipping)

**Description** - You are buying a property that is in moderate to bad physical condition, fixing it up, and then selling it—just like on those cable TV shows (except you make or lose your own money, and it's not “reality”—it's real!).

### Pros:

- **Income** – This can be a very lucrative way to make a living. How much you make per house will vary, and every person will have a minimum amount that he or she expects to make before purchasing.
- **Hands-on** – If you are a hands-on type person, this may be for you.
- **Not hands-on** – You can also just supervise and write checks to contractors, if you wish. This generally results in a lower profit but allows you to leverage the expertise and experience of others.
- **Creativity** – If you like to be creative and solve problems, then this will be up your alley as you determine how to transform a mess into a beautiful finished product. Just remember to focus that creativity toward the tastes of a typical buyer in the masses.

### Cons:

- **Hidden costs** – Like most repair projects, fixer-uppers often seem to take twice as long and cost twice as much as you expected. When you tear into something, you often find some other unexpected “surprises.” As a result, you may spend much more than expected doing repairs, and your bottom line suffers accordingly.
- **Contractors** – It can be very frustrating dealing with some contractors. They may be juggling different jobs and it can be challenging to keep your rehab project on budget and on schedule.
- **Cash-intensive** – This is one of the most cash-intensive areas of real estate. It takes money to purchase the home, do the repairs, pay the utilities, and pay the insurance/taxes/mortgage for however long until you can finally sell the home.

- **Infrequent paydays** – If you are used to getting paid every week or on a regular basis, you may be in for a shock. You will be doing nothing but spending money for weeks and weeks until you finally sell the home and get one (hopefully) big payday.

- **Liability** – There is a certain amount of liability relating to fixing anything. As long as the work is done properly, you will be okay. It's when something isn't done correctly, and someone subsequently gets hurt, that you may be liable. So make sure you are dealing with reputable contractors.

### Skills needed:

- **Construction knowledge** – You don't need to know how to do everything yourself, but you need to know how things should be done, how much it should cost, and how long it should take. This knowledge enables you to talk and work with the contractors you hire.

- **Project management** – One of the common pitfalls of rehabbing is when a two-month project takes six months. Suddenly the \$20,000 profit is gone and you're just hoping to break even.

- **Analytical skills** – You must be able to determine the current value, after-repair value, and repair costs relating to the property in order to be successful in this business.

### Other:

- **Municipal** - Many cities require that at least some of the repairs, such as plumbing and electrical repairs, be done by a licensed contractor only.

- **Time-intensive** – It depends. You can be a part-time rehabber or a full-time rehabber. Typically this is fairly time-intensive unless you hire a general contractor and turn the project over to him; then you simply spend your time (and more money) managing them. If you get the wrong guy, you'll feel like you are paying him so you can babysit him.

- **Cash-intensive** – As noted above, this is one of the most cash-intensive areas of real estate. It takes money to purchase the home, do the repairs, pay the utilities, and pay insurance/taxes/mortgage.

- **Tools** – Don't forget that if you're going to do some of the work yourself, you'll need money for tools, equipment and maintenance.

## Creative buying and selling

You can use all kinds of techniques to buy and sell houses. We would need a whole new report to deal with all of these techniques. The "short version" on creative transactions includes subjects such as financing, short sales, partnering, buying on lease option or land contract, seller financing, and the like. Most people learn about how to do these things by taking special courses. You can also find out some more about some of them by attending your local REIA meeting.

## Discounted Notes and Mortgages

**Description** - This real estate-related business is often referred to as "buying paper." Someone who specializes in discounted mortgages purchases an income stream, such as monthly payments on a promissory note (secured by a mortgage) for less than it is "worth." Folks who cannot or will not learn to use a financial calculator (or certain types of financial software) need to run from this one. This is a real estate-related business/investment that requires a lot of "savvy" and is best left to those at the advanced level.

### Pros

- **No landlording** – You are concerned with your Return on Investment (ROI) and how secure your investment is (determined by Loan-to-Value, appraisals, inspections, evaluation of the borrower, etc.).
- **Moderate time involvement** – Most of your time is spent at the beginning of the investment doing the due diligence and analysis necessary to determine if this is a transaction in which you want to be involved.
- **Secure** – If you do your homework correctly, this should be a very secure way of obtaining an excellent return on your money. It is secure because the income stream should be secured by appropriately evaluated real estate.

- **Minimal hassles** – You are primarily in the business of analyzing notes to be purchased and in managing your portfolio of already purchased notes, including making sure that payments are being received as agreed.

### Cons:

- **Cash-intensive?** – This may or may not be a cash-intensive business. It is cash-intensive if you are using your own money, because you can buy only as many loans as you have money to purchase. There are ways to do this without your own money, but that is for an advanced class, not this report.
- **Bankruptcy and foreclosure** – One downside of discounted mortgages occurs when the borrower doesn't pay and/or declares bankruptcy. You may be forced to foreclose on the property and take it back. Ouch.

### Skills needed:

- **Analytical skills** – Much of the analysis or due diligence required for deciding whether to buy a note resembles that of purchasing a property. You need to determine what the property that is securing the note is worth. Additionally, you need to learn the ins/outs of the "time value of money" and the process of discounting notes. Moreover, you need to evaluate the person who originally borrowed the money and whose name is on the note.

## Private Money or Hard Money Lender

**Description** - A private money lender or hard money lender is an individual who lends money to real estate investors. Instead of borrowing money from a bank and having to jump through the hoops that they require, it often is much easier and faster to use a private money lender. The most common customer of the hard money lender in real estate is probably the rehabber who borrows money just long enough to purchase a home, fix it up, and repay the loan. Folks involved in this type of lending business are normally very experienced members of the advanced group who have made some money in real estate and are diversifying by becoming lenders.

### **Pros:**

- **Higher ROI** – If you have money to lend and are willing to do some of the due diligence needed when lending someone money, this may be a good niche for you. It is not uncommon to earn higher interest rates than the bank gets when lending money to investors.
- **No landlording** – You are concerned with your Return on Investment (ROI) and how secure your investment is (determined by Loan-to-Value, your own appraisal and inspection, etc.).
- **Moderate time investment** – Your time is primarily spent at the beginning of the investment doing the due diligence and analysis necessary to determine if this is a transaction in which you want to be involved.
- **Secure** – If you do your homework correctly, this should be a very secure way of obtaining an excellent return on your money. The income stream should be secured by real estate that you feel comfortable owning for the amount you lend the borrower. If the borrower doesn't pay, you'll probably foreclose, take the house, and be the new owner.
- **Minimal hassles** – You are primarily in the business of analyzing the loan, managing your portfolio of loans, and making sure that payments are being received as agreed.

### **Cons:**

- **Cash-intensive** – You can only loan out money you have available.
- **Bankruptcy and foreclosure** – As with discounted mortgages, the downside of lending people money is what happens if the borrower doesn't pay and/or declares bankruptcy. This is typically a long and expensive process.

### **Skills needed:**

- **Analytical skills** – Much of the analysis or due diligence required for deciding whether to buy a note resembles that of purchasing a property. You need to determine what the property that is securing the loan is worth, in both its current state and its after-repair state.

## **Conclusion**

As you can see, there are many areas of real estate in which you can get involved. Some areas are better for beginners; others are best left for those who have lots of experience. In any case, there is much room in this field for you to involve yourself on a full- or part-time basis.

If you are interested in learning more about the real estate business or investing in real estate, we would like to invite you to attend the Real Estate Investors Association in your area. Local REIA groups offer education, networking, and more at their monthly meetings. Our members have varied levels of experience so you can feel comfortable and get the support you need; many members have decades of experience, and many of our other members are just exploring whether real estate is something they want to do. Find a local group at [www.NationalREIA.org](http://www.NationalREIA.org).





***“Improving  
Neighborhoods,  
One Home at a Time”***

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