

Index

• A •

- absorption
 - defined, 149
 - negative, 39, 149
 - positive, 39, 149
- accountants. *See* tax advisors
- accounting
 - budgets, 309–310
 - financial management aspects, 307
 - income and expense documentation, 308–309
 - manual, 310
- accounting software
 - functions, 311
 - Quicken Rental Property Manager (RPM)*, 312
 - RentRight*, 312
 - Tenant Pro*, 313
 - using, 311–314
 - value, 311–312
 - Yardi Systems Property Management Solutions, 313–314
- accrued depreciation, 197–198
- acquisition costs, in buy-and-flip strategy, 79
- active activity, 320–321
- adjustable-rate mortgages (ARMs). *See also* mortgages
 - adjustment cap, 118
 - benefits, 116
 - choosing, 121–122
 - decision, 121–122
 - defined, 115
 - fully indexed rate, 117
 - future interest rate, 116–117
 - future interest rate adjustments, 118
 - indexes, 116, 117–118
 - lifetime cap, 118, 122
 - negative amortization, 119
 - start rate, 116
- adjustment caps, 118
- advertising, for tenants, 279–280
- all-cash sales, 323–324
- ALTA property survey, 221
- American Society of Home Inspectors (ASHI), 237
- Americans with Disabilities Act (ADA), 278–279
- animal agreements, 271
- annual percentage rate (APR)
 - comparison, 115
- apartments
 - converting to condominiums, 38
 - five/more units, 37
 - four/fewer units, 37
 - value, adding, 38
- application fee, 119
- appraisals
 - contingency, 221
 - fees, 120
 - low, dealing with, 136
 - subjective nature, 97
- appraisers
 - as-is value determination, 97
 - benefits, 96
 - as property valuation source, 176
 - real estate investors becoming, 177
 - as team member, 96
- appreciation
 - capital gains from, 326
 - downturn, 347
 - rate, 78
 - in return on investment, 182
- ARMs. *See* adjustable-rate mortgages
- asbestos, 267
- as-is gambit, 232–233
- assemblage, 348
- asset allocation
 - calculating, 22
 - defined, 21–22
 - guidelines, 2–3
- assumption clause, 49
- attached housing types, 35–37

attorneys
 benefits, 97–98
 finding, 97–98
 real estate specialization, 98
 references, 98
 auctions, real estate, 59–60
 auto insurance, 21

• B •

balloon loans, 126
 barriers to entry. *See also* real estate markets
 CANES, 156–157
 condo conversion/construction defect lawsuits, 157–159
 environmental issues, 155–156
 existence, 155
 shortage of buildable land, 156
 basis
 adjusted, determining, 325–326
 defined, 316
 determining for depreciation, 316–317
 substituted, 334
 bilateral contracts, 212
 bond leases, 69–70
 books and records
 current insurance policy, 229
 evaluating, 230
 governmental licenses/permits, 229
 income and expense statement, 228
 inspecting, 221, 227–230
 personal property list, 229
 rent roll, 228
 service agreements/contracts, 228
 tenant files, 228
 tenants security deposits, 228
 utility billing, 229
 broker information sheets, 190
 Broker's Price Opinion (BPO), 57, 176
 broom clean, 222
 Brown, Ray
Home Buying For Dummies (with Eric Tyson) 26, 224
 budgets
 creating, 309–310
 pro forma, 200

building ordinance insurance, 298
 building permits, 149–150
 burden of proof, 268
 business-friendly environment, 160
 buy, fix, and refinance strategy, 81
 buy-and-flip strategy, 79–80
 buyer's market. *See also* real estate cycles
 defined, 77, 166
 mastering, 165–168
 buying
 on margin, 64
 in the path of progress, 39, 351
 renting versus, 150
 right property at best price, 351–352
 buy/sell agreement, 109

• C •

C Corporation, 250
 CANES (Citizens Against Nearly Everything), 156–157
 capital gains
 from appreciation, 326
 exclusion, 334–336
 long-term, 108, 318
 partial exemption, 335
 renting own home and, 27
 short term, 318
 TIC ownership and, 66, 67
 capital improvements
 defined, 190
 as essential component, 191
 expense subjectivity, 191–192
 making, 190–192
 capital sources
 advanced strategies, 108–111
 approach, changing, 105
 cash value life insurance, 108
 financial investments, 107–108
 home equity, 106–107
 leveraging, 108–109
 margin debt, 110–111
 partners, 109–110
 retirement savings, 106
 savings, 103–104
 seller financing, 110

- capitalization rate, 198
- cash flow
 - calculating, 189–192, 318–319
 - capital improvements, 190–192
 - debt service, 190
 - defined, 190
 - discounted (DCF), 202
 - managing, 309–310
 - as real estate investment benefit, 10
 - sample investment property, 190
- certificates of deposit (CDs), 117
- Certified Commercial Investment Member (CCIM) designation, 144
- certified public accountants (CPA), 316
- change of use, 347–348
- children, renting to families with, 277–278
- Citizens Against Nearly Everything (CANES) 156–157
- claims, insurance, 301
- clean and marketable title, 253
- closing costs
 - application fee, 119
 - appraisal fee, 120
 - credit report charge, 119
 - environmental assessment, 120
 - estimating, 103
 - physical inspection, 120
- closing date
 - estimating, 226–227
 - extending, 221
 - setting, 218–219
- closing escrow
 - availability of parties, 252
 - deed recording, 257–258
 - defined, 251
 - document errors, 252
 - estimated closing statement, 252
 - final statement, 255–257
 - lender requests, 251
 - property insurance, 254–255
 - property takeover, 257–258
 - title insurance, 253–254
- closing statement
 - accounting, 256
 - allocation of expenses, 255–256
 - copy, keeping, 257
 - credits, 256
 - debits, 256
- coinsurance clause, 296
- collateral, 88
- collection losses, 186
- commercial real estate
 - defined, 38
 - investment reasons, 38
 - market evaluation, 39
 - showing, 281
 - warnings, 39
- commissions
 - mortgage broker, 132
 - real estate agent/broker, 92
 - TIC, 68
- common area maintenance (CAM)
 - accounting for, 193–194
 - defined, 187, 193
 - monthly collection, 194
 - reimbursement, 193
- community property, 245
- community reputation, 160
- Competitive Market Analysis (CMA), 176
- concessions, 152, 186
- condo hotels
 - defined, 30
 - hype, 33
 - operator benefits, 32
 - popular projects, 31
 - purchasers, 32
 - timeshares versus, 30
- condominium conversions
 - caution, 36
 - construction defect lawsuits, 159
 - first-type buyers and, 157
 - handling of, 157–158
 - investment perspective, 158–159
 - rental market impact, 158
 - unit interiors, 158
- condominiums, 35–36
- conformity, 174
- consolidation, holdings, 356–357
- construction defect lawsuits, 159
- consumer debt, 136
- contingencies
 - appraisal, 221
 - books and records, 221
 - contracts, 221
 - as critical elements, 226

- contingencies (*continued*)
 - defined, 219
 - financing, 220
 - outcomes, 220
 - physical inspection, 221
 - removing, 225–226
 - survey, 221
 - title, 220
 - using, 219–222
 - contractors
 - for renovations/upgrades, 292
 - at walk-through, 191
 - contracts contingency, 221
 - co-operatives, 37
 - corporations
 - appeal to real estate investors, 250
 - C Corporation, 250
 - double taxation drawback, 249, 251
 - S Corporation, 250–251
 - cosigners, 286–287
 - cost approach, 197–198
 - CoStar Group, 143
 - counteroffers, 213
 - coupon clipping investment, 355
 - credit
 - cleaning up, 350
 - FICO scores, 102
 - good, 102
 - history, rental applicants, 285–286
 - credit reports
 - bureaus, 135
 - charge, 119
 - consumer debt problem and, 136
 - erroneous information on, 135
 - polishing, 135–136
 - credits, negotiating in escrow, 241–242
 - crime rates, 161–162
- D •**
- D&B database, 285
 - DCF (discounted cash flow), 202
 - dealer label, 329–330
 - debt service, 190
 - deductible, insurance, 299
 - deed recording, 257–258
 - deeds of trust, 72
 - delayed exchanges, 330
 - delinquencies, in NOI calculations, 186
 - demand, 174
 - depreciation
 - accrued, 197–198
 - allowance, 316
 - as basis determination for, 316–317
 - deductions, 346
 - defined, 316
 - land, lack of, 40
 - midmonth convention requirement, 317
 - recovery period, 317
 - sheltering income with, 316–317
 - straight-line, 317
 - tax benefits of, 182
 - direct capitalization, 298
 - direct lenders, 87
 - disabilities, tenants with, 278–279
 - disability insurance, 20
 - disclosure requirements, 231–232
 - discount rate, 202
 - discounted cash flow (DCF), 202
 - discrimination, 277
 - diversification
 - employment, 146
 - investment, 107
 - value, 16
 - document errors, 252
 - double taxation, 249, 251
 - down payments
 - limitations, overcoming, 105–108
 - low, 105
 - no money down, 75–78
 - requirements, 103
 - downzoning, 40, 42
 - due diligence
 - books and records inspection, 227–230
 - contractor walk-through in, 191
 - defined, 84, 223
 - formal period, 227
 - importance, 227
 - performing, 227–240
 - practical examples, 227
 - property inspection, 230–240
 - property insurance, 254
 - real estate auction properties, 60
 - seller financing, 125
 - TIC investment, 69
 - time and money, 84
 - due-on-sale clause, 49, 126

• E •

- earnest money
 - advice, 217
 - defined, 216
 - deposit, 224
 - deposit size, 216
 - forfeiture, 217
 - purpose, 216
- easements, 41
- economic development incentives, 160
- economic principles, 174
- effective gross income (EGI), 185
- effective rental rate, 152
- egress, 41
- electric usage, 188
- electronic check truncation, 307
- Eleventh District Cost of Funds Index (COFI), 118
- E-LOAN, 133
- employment
 - in regional evaluation, 145–146
 - verification, 285
- enrolled agents (EA), 316
- entitlements, 347
- environmental assessment, 120
- environmental issues
 - asbestos, 267
 - inspections, 236–237
 - lead, 266–267
 - location and, 155–156
 - mold, 267
 - protection cost, 155–156
 - radon, 267
- Equifax, 135, 285
- equity
 - building with home ownership, 26
 - buildup of, 182
 - defined, 12
 - home, 106–107, 123–124
 - lazy, 356
 - transferring, for tax deferral, 330–334
 - using, 22
- equity REITs, 61
- errors and omissions insurance, 237
- escrow
 - closing of, 251–258
 - defined, 224
 - extending, 227
 - instructions, 224–225
 - negotiating credits in, 241–242
 - opening, 224–227
 - period, 219
- escrow officers, 224, 225, 257
- estimated closing statement, 252
- ethics, of foreclosures, 51
- excess liability (umbrella)
 - insurance, 21, 297
- exit strategies
 - capital gains exclusion, 334–336
 - defined, 315
 - installment sales, 328–330
 - lease-to-own purchase, 336–338
 - outright sales, 323–324
 - property transfer, 338
 - success impact, 322–323
 - tax-deferred exchanges, 330–334
- expenses
 - documenting, 308–309
 - operating, cutting back, 344–346
 - seller claims, 203–204
 - selling, 324
 - written record, 304–305
- Experian, 135, 285
- external appearances, enhancing, 290–291

• F •

- Fair Credit Reporting Act, 287
- Fair Housing Act, 276, 278
- fair market value, 175–176
- fair-housing laws, 276
- families, renting to, 277–278
- Fannie Mae, 133
- fee simple ownership, 36
- FHA/VA repos, 52
- FICO scores, 102
- files
 - income and expense, 306
 - master maintenance, 306
 - ownership, 306
 - record, 305–307
 - tenant, 306
 - unit maintenance, 306–307
- financial advisors
 - conflicts of interest, 86
 - finding, 85–87
 - as salespeople, 87

financial health, 20
 financial investments, moving, 107–108
 financial management, 304, 307
 financial statements, 172
 financing. *See also* mortgages
 contingency, 220
 down payment requirements, 103
 FHA/VA repos, 52
 nonrecourse, 127
 recourse, 127
 seller, 110
 unstabilized property, 128
 fixed-rate mortgages. *See also* loans;
 mortgages
 choosing, 121–122
 comparing, 114–115
 decision, 121–122
 points and, 115
 pros/cons, 114
 fixed-term leases, 268
 fixer-uppers, investing/living in, 28–29
 fix-up costs, 210, 211
 flood, hurricane, earthquake insurance, 298
 foreclosures
 assumption clause and, 49
 categories, 47
 deed of trust state, 47
 defined, 44
 due on sale clause and, 49
 ethics, 51
 finding, 43–51
 homeowner mistakes leading to, 45
 judicial, 49
 mortgage state, 47
 nonjudicial, 50
 Notice of Default (NOD), 48–49
 owner vacating property and, 49
 pillow test, 51
 preforeclosure, 47–48
 reasons for, 45–46
 redemption period, 50
 research, 45
 risk, comprehending, 107
 sale, 49–50
 Freddie Mac, 133
 full market value, 77
 fully indexed rate, 117
 future, predicting, 147

• G •

gain. *See also* losses
 calculating on sale, 324–327
 IRS definition, 17
 tax-free, 334–336
 gains tax exemption, 26
 general partnerships, 73, 247
 good funds, 252, 289
 government
 effect on real estate, 159–160
 licenses, 229
 mortgage sites, 133
 Griswold, Robert
 Property Management Kit For Dummies,
 2nd Edition, 2, 271, 353
 Gross Income Multiplier (GIM), 178, 179
 gross leases, 192
 gross possible income, 185
 Gross Potential Income (GPI), 318
 Gross Rent Multiplier (GRM), 178, 179

• H •

hard money loans, 72
 health insurance, 20
 highest and best use, 175
 holding costs, in buy-and-flip strategy, 79
 holding deposits, 284
Home Buying For Dummies (Tyson and
 Brown), 26, 224
 home equity
 borrowing against, 106–107, 123–124
 loans, 123–124
 payments, 107
 tax ramifications, 107
 homeowner's insurance, 21
 homes
 converting to rental, 26–27
 ownership, 26
 single-family, 34–35
 vacation, 29–30
 house rules, 271
 Hoven, Vernon
 The Real Estate Investor's Tax Guide, 336
 HSH Associates, 133
 hypothecating, 109

• 1 •

- illiquidity, 15, 76
- income
 - additional stream, 187
 - boosting, 104
 - capital gains, 318–322
 - documenting, 308–309
 - effective gross, 185
 - evaluating, 184–187
 - gross potential, 185
 - insufficient, 136
 - levels, 145, 146
 - ordinary, 318
 - sheltering, with depreciation, 316–317
 - tenant, verification, 285
 - types of, 318
- income capitalization approach
 - advantages, 200
 - defined, 198
 - example, 199
 - IRV formula, 198
 - pro forma budget, 200
- income journals, 304
- indexes. *See also* adjustable-rate
 - mortgages (ARMs)
 - certificates of deposit (CDs), 117
 - defined, 116
 - Eleventh District Cost of Funds Index (COFI), 118
 - London Interbank Offered Rate Index (LIBOR), 118
 - Treasury bills (T-bills), 117
 - understanding, 117–118
- ingress, 41
- inspection reports, 120, 238
- inspections
 - as-is gambit, 232–233
 - avoidance tactics, 232
 - best result, 231
 - books and records, 221, 227–230
 - cost, 238
 - disclosure requirements and, 231–232
 - environmental, 236–237
 - interior unit checklist, 239–240
 - for latent defects, 231
 - for patent defects, 231
 - pest control/damage, 235–236
 - physical, 120, 221, 233–235
 - property, 230–240
 - property, with tenant, 289
 - two-step process, 231
 - types of, 233–237
 - unit, 272–273
- inspectors
 - certification, 237–238
 - errors and omissions insurance, 237
 - as general contractors, 237
 - joining, 237
 - qualifying, 237–240
 - résumés, 238
- installment sales. *See also* sales
 - deferred taxes, 17–18
 - defined, 17–18, 328
 - example, 328–329
 - as exit strategy, 328–330
 - method, 328
 - tax advantages, 328
- insufficient funds, 289
- insurance
 - aggregate deductibles, 297
 - auto, 21
 - basic coverage, 295–296
 - broad-form coverage, 296
 - building ordinance, 298
 - claims, 301
 - coinsurance clause, 296
 - common coverages, 295–297
 - current policy, 229
 - deductible, 299
 - disability, 20
 - environmental, 299
 - excess liability (umbrella), 21, 297
 - fidelity bonds, 298
 - flood, hurricane, earthquake, 298
 - health, 20
 - homeowner versus landlord, 297
 - homeowner's, 21
 - life, 21
 - loss payments, 296
 - loss-of-rents coverage, 298
 - in NOI calculation, 189
 - non-owned auto liability coverage, 298
 - obtaining, 294–301
 - options, 295–298
 - property, 254–255

- insurance (*continued*)
 - renter's, 300–301
 - special form, 296
 - title, 253–254
 - workers' compensation, 298
 - insurers, selecting, 299–300
 - interest
 - defined, 88
 - future rates, 116–117
 - interest-only loans, 127
 - interior, renovating/upgrading, 291
 - internal rate of return (IRR), 202
 - investment horizon, 167
 - investments
 - commercial properties, 38–39
 - comparison, 13–18
 - coupon clipping, 355
 - decision, 18–19
 - diversification, 107
 - evaluation, 83
 - financial, moving to property, 107–108
 - land, 39–42
 - lease, 170
 - location decision, 140
 - no-money-down, 75–78, 102
 - residential properties, 25–38
 - success, 349–357
 - investors, as lenders, 71–72
 - IRR (internal rate of return), 202
 - IRV formula
 - capitalization rate, 198, 204
 - defined, 198
 - elements, 198
 - example, 199
- **I** •
- job growth, 145–146
 - joint tenancy, 243–244
 - journalistic mortgage sites, 133
 - judicial foreclosure, 49
- **L** •
- land
 - access, 41
 - buildable, shortage of, 156
 - buying, 39–42
 - costs, 41
 - downzoning dangers, 40
 - drawbacks, 40
 - home runs, 39
 - improvements, determining, 41
 - investment guidelines, 41–42
 - risks, 40
 - zoning and environmental issues, 42
 - LandAmerica 1031 Exchange Services (LES), 333
 - landlords
 - becoming own, 23
 - dishonest, 284
 - emotional attachment and, 35
 - unforthcoming, 284–285
 - latent defects, 231
 - lead, 266–267
 - lease abstracts
 - defined, 70, 172
 - preparation, 70
 - reviewing, 172–173
 - lease estoppel, 172
 - lease options
 - benefits, 343
 - caution, 337–338
 - defined, 57, 343
 - demand for, 58
 - example, 336–337
 - as exit strategy, 337–338
 - for increasing property return, 343
 - as low entry cost option, 105
 - process, 58
 - as sale, 337
 - leases
 - commercial, 172–173
 - defined, 169
 - evaluation importance, 169–170
 - fixed-term, 268
 - gross, 192
 - length determination, 268
 - modified gross, 192
 - month-to-month, 268
 - net, 192
 - option comparison, 192–193
 - problems, 170
 - rent escalation clauses, 170
 - residential, 171
 - reviewing, 171–173
 - upside potential, 170

- legal research sites, 133
 - lenders
 - building relationships with, 89
 - business of, 87–88
 - collateral, 88
 - convincing, for short sales, 55–57
 - defined, 87
 - direct, 87
 - investment property understanding, 134
 - investors as, 71–72
 - referrals, 130
 - lessee, 169
 - lessor, 169
 - leveraging
 - real estate investments, 108–109
 - returns and, 14
 - life insurance, 21
 - lifetime caps, 118, 122
 - Limited Liability Company (LLC), 248–249
 - limited partnerships. *See also* partnerships
 - defined, 73, 247
 - disadvantages, 74
 - scope, limiting, 74
 - structures, 74
 - liquidated damages, 217
 - liquidity, 15
 - listings, property, 150
 - litigation records, 304
 - loans. *See also* mortgages
 - balloon, 126
 - hard money, 72
 - home equity, 123–124
 - interest-only, 127
 - low money down, 105
 - nonrecourse, 127, 128, 237
 - partial recourse, 128
 - predicaments, solving, 134–135
 - prepayment penalty, 123, 346
 - recourse, 127–128, 128
 - refinancing, 345–346, 353–354
 - rejection, best defense, 134
 - secured, 72
 - seller-financed, 124–126
 - local real estate market. *See* real estate markets
 - location
 - decision, 140–141
 - future predications and, 147
 - importance, 139
 - local market, 147–160
 - out-of-area, dangers of, 141
 - region evaluation, 143–147
 - London Interbank Offered Rate Index (LIBOR), 118
 - long-term capital gains, 108, 318
 - long-term mortgages, 123
 - losses. *See also* gains
 - calculating on sale, 324–327
 - collection, 186
 - suspended, 326
 - lot split, 347–348
 - lowballing approach, 206
- M •
- maintenance
 - costs, self-management and, 262
 - for increasing returns, 344
 - records, 306–307
 - management fees, 188
 - manual accounting, 310
 - margin calls, 111
 - margin debt, 110–111
 - market data (sales comparison) approach.
 - See also* property valuation
 - accuracy, 195
 - adjusted sales price, 196, 197
 - comparable properties, 195
 - defined, 194
 - summary, 195
 - market deals, 142
 - market downturns, 19
 - material participation, 322
 - MLS (Multiple Listing Service), 90–91
 - modified gross leases, 192
 - mold, 267, 299
 - money collection, 288–289
 - month-to-month agreements, 268
 - Mortgage Bankers Association, 133
 - mortgage brokers. *See also* lenders
 - advice, 131
 - bait-and-switch, 132
 - business, 87–88
 - closing, 131
 - commission, 132
 - contributions, 131

- mortgage brokers (*continued*)
 - defined, 87
 - paperwork and presentation, 131
 - reasons to use, 130
 - Mortgage Forgiveness Act of 2007, 56
 - mortgage REITs, 61
 - mortgages. *See also* financing; loans
 - adjustable-rate (ARMs), 115–119
 - application fee, 119
 - appraisal fee, 120
 - credit report charge, 119
 - decisions, 121–123
 - environmental assessment, 120
 - fees, 119–121
 - first, 123
 - fixed versus adjustable decision, 121–122
 - fixed-rate, 114–115
 - length expectation, 122
 - with mortgage broker, 130–132
 - no-point, 120
 - options, 113–119
 - physical inspection, 120
 - piggy back loans, 46
 - risky, 126–128
 - second, 123
 - shopping for, 129–133
 - short-term versus long-term decision, 123
 - Web surfing, 132–133
 - motivated sellers, 76
 - Multiple Listing Service (MLS), 90, 91
 - mutual fund REITs, 63–65
- **N** •
- National Association of Realtors (NAR), 90
 - negative absorption, 39, 149
 - negative amortization ARMs, 119
 - negative leverage, 14
 - negotiations. *See also* offers
 - approach to, 205–206
 - credits, in escrow, 241–242
 - infomercial strategies, 208
 - knowledge foundation for, 206–210
 - local economy knowledge and, 207–209
 - lowballing approach, 206
 - property-related data in, 209–210
 - repair, 241–242
 - seller motivations and, 209
 - take-it-or-leave approach, 206
 - neighborhoods. *See also* real estate markets
 - crime rates, 161–162
 - pride of ownership, 162–163
 - property attraction, 163–165
 - reputation, 160
 - schools, 161
 - net cash flow, 182
 - net leases, 69, 192
 - net net (NN) leases, 70
 - net net net (NNN) leases, 70
 - net operating income (NOI)
 - added income streams and, 187
 - calculation, 183
 - collection losses and, 186
 - concessions and, 186
 - current, 183
 - defined, 183
 - forecasting, 183
 - income evaluation, 184–187
 - in IRV formula, 198
 - pro forma, 183
 - seller inflation, 200
 - vacancies and, 185–186
 - net present value (NPV), 202
 - niche, market, 343
 - NOI. *See* net operating income
 - no-money-down investments
 - avoid recommendation, 76–77
 - birth of, 76
 - finding, 77–78
 - good candidates, 78
 - myth, forgetting, 102
 - purchasing, 75–78
 - nonjudicial foreclosure, 50
 - nonrecourse financing, 127, 128, 237
 - no-point mortgages, 120
 - Notice of Default (NOD). *See also* foreclosures
 - filing, 48
 - in finding short sales, 55
 - solutions, offering, 48–49
 - notice-of-denial-to-rent form, 287
 - NPV (net present value), 202

• 0 •

occupancy levels, 151–152
offers
 acceptance, 213
 attractive/realistic, 210–211
 contingencies, 219–221
 counteroffers, 213
 creatively meeting seller's price, 211
 defined, 212
 fix-up costs and, 210
 making, 205–222
 negotiations, 205–211
 preparing to make, 211–215
 real estate contracts, 211–215
operating expenses. *See also* net operating
 income (NOI)
 calculating, 187–189
 insurance, 189
 management fees, 188–189
 utilities, 187–188
operating profit, 12
oral agreements, 214
organization, this book, 3–5
out-of-area investing, 141
outright sales, 323–324
owned real estate operations (OREOs), 44
ownership
 corporation, 250–251
 joint tenancy, 243–244
 LLC, 248–249
 options, 242–251
 partnership, 246–248
 sole proprietorship, 243
 tenancy by entireties, 245
 tenancy in common, 244–246
ownership investment, 14

• P •

partial recourse loans, 128
partnerships. *See also* ownership
 buy/sell agreement, 109–110
 as capital source, 109–110
 defined, 246
 family member, 110
 general, 247
 investors, 246

 limited, 247
 private placement, 248
 tax standpoint, 248
 TICs versus, 247
passive activity, 320–321
patent defects, 231
path of progress
 buying in, 39, 351
 defined, 351
 indicators, 153
 redevelopment, 153
 stepping in, 154
percentage rents, 173
performance
 financial, 148
 REITs, 63
 single-family homes, 34
permits, 229
personal checks, 289
Personal Finance For Dummies (Tyson), 104
personal property, included in
 purchase, 229
personal references, rental applicants, 286
pest control/damage inspections, 235–236
pets, support, 279
physical inspections. *See also* inspections
 areas, 234
 in closing costs, 120
 contingency, 221
 cracks, 234
 defined, 233
 final, 257
 floors, 234
 moisture intrusion, 234–235
 plumbing, 235
 soil, 234
 structure misalignment, 234
piggyback loans, 46
planned unit developments, 36
pledged real estate, 71
points, 115
population growth, 144–145
positive absorption, 39, 149
positive leverage, 14
preforeclosures. *See also* foreclosures
 as buying opportunity, 48
 defined, 47
 finding, 54
 as short sale opportunity, 54, 55

- preliminary title report, 225
 - prepayment penalty, 123, 346
 - price per square foot, 180
 - price per unit, 179–180
 - pride of ownership, 162–163
 - private mortgage insurance (PMI), 105
 - private placement partnerships, 248
 - private REITs, 63
 - pro forma budgets, 200
 - pro forma NOI, 183
 - probate sales, 58–59
 - progression, 174
 - properties
 - broom clean, 222
 - pride of ownership, 162–163
 - repositioning, 354–355
 - taking over, 257–258
 - from tenants perspective, 165
 - testing for environmental concerns, 266–267
 - transferring, 338
 - turnkey, 355
 - under contract, 222
 - underpriced, 142–143
 - value-added, 143
 - property insurance. *See* insurance
 - property knowledge sheets
 - benefits, 163–164
 - defined, 163
 - illustrated, 164
 - property management
 - accounting, 265
 - contracts, 265
 - credentials, 265
 - defined, 261
 - fees, 262, 265–266
 - finding, 264–265
 - hiring, 265–266
 - improvement, 348
 - insurance, 265
 - licenses, 265
 - on-the-job lessons, 261
 - research, 264–265
 - self-management versus professional, 262
 - superior, 355
 - use decision, 261–264
 - Property Management Kit For Dummies, 2nd Edition* (Griswold), 2, 271, 353
 - property tax assessments, 345
 - property valuation
 - advanced techniques, 202
 - benchmarks, 177–180
 - concepts, 174
 - cost approach, 197–198
 - discounted cash flow (DCF), 202
 - economic principles, 173–176
 - fair market versus investment, 175–176
 - highest and best use, 175
 - income capitalization approach, 198–200
 - information sources, 176–177
 - internal rate of return (IRR), 202
 - market data (sales comparison)
 - approach, 194–197
 - net present value (NPV), 202
 - number crunching, 181–204
 - results, reconciling, 201–202
 - three approaches, 194–200
 - public REITs, 62
 - purchase agreements
 - closing date, 218–219
 - contingencies, 219–221
 - defined, 211, 215
 - discretionary terms, 216
 - earnest money deposit, 216–217
 - emergency exit, 218
 - key provisions, 215–222
 - personal property, 222
 - presenting, 222
 - property transfer, 222
 - rights assignment, 217–218
 - sample, 359–366
- **Q** •
- Quicken Rental Property Manager (RPM)*, 312
- **R** •
- radon, 267
 - real estate
 - auctions, 59–60
 - benefits, 10–12
 - cornerstones, 1
 - evaluating as investment, 9–23
 - in financial plans, 20–23
 - hypothecating, 109

- income-/wealth-producing
 - potential, 10–12
- interest in, 19
- investment decision, 18–19
- listing services, 90–91
- location, 139
- other investments comparison, 13–18
- pledged, 71
- supply and demand, 148–153
- ups and downs, 13
- real estate agents/brokers
 - commissions, 92
 - compensation, 92–94
 - defined, 89
 - dual agency, 91–92
 - eliminating, 94
 - experts, 94
 - finding, 94–95
 - as investment opportunity source, 94
 - license status, 94–95
 - litigation, 93–94
 - as property valuation source, 176–177
 - references, checking, 95
 - relationship with, 96
 - reputation, 95
 - screening techniques, 94–95
 - self-dealing, 93
 - single agency, 91
 - track record, 90
 - traits, 95
 - value of, 90–91
 - working with, 89–96
- real estate contracts
 - bilateral, 212
 - defined, 211–212
 - elements, 212–213
 - legal purpose, 213
 - legally binding, 212
 - preparing, 211–215
 - standardized, 214
 - unilateral, 212
 - voidable, 214
 - written, 213
- real estate cycles. *See also* buyer's market;
seller's market
 - investment horizon and, 167
 - for residential real estate investors,
166–167
 - signs, 165
 - timing and, 167–168
 - understanding, 166–167
- real estate investment trusts (REITs)
 - average return, 14
 - best mutual funds, 64
 - buying on margin, 64
 - defined, 61
 - dividends, 63
 - equity, 61
 - investing in, 63–65
 - as low-cost option, 16, 105
 - management fees, 63
 - mortgage, 61
 - mutual fund, 63–65
 - performance, 63
 - private, 63
 - property types invested with, 62
 - public, 62
 - researching, 64–65
 - using, 61–65
- The Real Estate Investor's Tax Guide
(Hoven), 336
- real estate markets
 - barriers to entry, 154–159
 - buyer's, 77, 165–168
 - economic impact, 148
 - government effect on, 159–160
 - investigating, 147–160
 - local, 147–160
 - neighborhood comparison, 160–165
 - niche, 343
 - path of progress, 153–154
 - seller's, 165–168
 - supply and demand, 148–153
- real estate owned (REOs)
 - defined, 44
 - investor angle, 52
 - lenders and, 51–52
 - research, 45
 - sales, 52
 - short sales versus, 54
- real estate professional status, 321–322
- Real Estate Research Corporation, 143
- records
 - filing, 305–307
 - financial management, 304
 - litigation, 304
 - organizing, 303–307
 - retention time, 305

- records (*continued*)
 - taxation, 304
 - up-to-date/accurate, 304–305
- recourse loans, 128
- redemption period, 50
- referrals, lender, 130
- refinancing
 - in building equity, 345–346
 - renovation recovery with, 353–354
- regions. *See also* location
 - defined, 143
 - economic data, 144
 - evaluating, 143–147
 - income levels, 146
 - job growth, 145–146
 - population growth, 144–145
- regression, 174
- REITs. *See* real estate investment trusts
- relationships
 - with lenders, 89
 - with real estate agents/brokers, 96
- renovations/upgrades
 - adding value with, 290–292
 - contractors for, 292, 352–353
 - expense/income ratio, 352
 - external appearances, 290–291
 - in increasing returns, 344
 - interior, 291
- rent rolls, 228
- rent stabilization, 152
- rental agreements
 - commercial properties, 274
 - entering into, 273–274
 - larger residential properties, 273
 - signing, 284, 288
 - single-family homes/condos, 273
- rental applications
 - accepting, 283–284
 - adults' identity, 284
 - cosigners, 286–287
 - credit history, 285–286
 - decision notification, 287
 - employment and income, 285
 - holding deposits, 284
 - personal references, 286
 - rental history, 284–285
 - verifying, 284–286
- rental documents, reviewing/signing, 288
- rental levels, 152
- rental policies
 - house rules, 271
 - lease length, 268
 - rent amount, 269–270
 - security deposits, 270–271
- rental rate, examining, 203–204
- rentals
 - applications and deposits, 283–284
 - short-term, 27
 - showing, 280–283
- renter's insurance, 300–301
- renting versus buying, 150
- RentRight*, 312
- rents
 - comparable, surveying, 270
 - increasing, 274
 - market, knowing, 353
 - move-in, collecting, 288–289
 - percentage, 173
 - raising, 341–342
 - setting, 269–270
- repairs. *See also* maintenance;
renovations/upgrades
 - costs, in buy-and-flip strategy, 79
 - negotiating for, 241–242
- replacement cost, 180
- repositioning properties, 354–355
- research. *See* due diligence
- residential leases, 171
- residential properties
 - apartments, 37–38
 - attached housing, 35–37
 - condos, 35–36
 - co-ops, 37
 - fixer-upper, 28–29
 - home-to-rental conversion, 26–27
 - investment methods, 25–33
 - own home, 26
 - single-family homes, 34–35
 - timeshares/condo hotels, 30–33
 - townhomes, 36
 - types, 33–38
 - vacation home, 29–30
- Resolution Trust Corporation (RTC), 51
- retirement account funding, 21
- retirement savings, 106
- returns
 - defined, 14
 - elements determining, 182

- good credit and, 102
- investment comparison, 14
- leverage and, 14
- REITs, 14
- risk-adjusted, 168
- setting rents and, 269–270
- strategies for increasing, 341–348
- reverse 1031 exchanges, 334
- right of survivorship, 243
- rights assignment, 217–218
- risk management plans, 293–294
- risk-adjusted returns, 168
- risks
 - investment comparison, 15
 - land investment, 40
 - removing, 294
 - transferring to others, 294
 - triple net investment, 71
- RTC (Resolution Trust Corporation), 51

• S •

- S Corporation, 250–251
- sales. *See also* short sales
 - cost, in buy-and-flip strategy, 79
 - gain/loss calculation, 324–327
 - installment, 328–330
 - lease-to-own purchase, 336–3348
 - net proceeds, 324
 - outright (all-cash), 323–324
 - transfer, 338
- sales contracts. *See* purchase agreements
- sample purchase agreement, 359–366
- saving
 - as capital source, 103–104
 - difficulty, 104
 - increasing, 350
 - options, 104
 - retirement, 106
- scarcity, 174
- schools, 161
- secondary homes. *See* vacation homes
- secured loans, 72
- Securities and Exchange Commission (SEC), 248
- security deposits
 - books and records, 228
 - collecting, 288–289
 - deciding on, 270–271
 - self-management
 - benefits, 262
 - cost of, 262
 - decision, 262–264
 - personal skills/interests and, 263–264
 - seller financing. *See also* financing
 - candidates, 124
 - as capital source, 110
 - defined, 124
 - drawback, 110
 - due-on-sale clause, 126
 - nonrecourse agreement, 126
 - seeking, 211
 - seller financing, 125
 - terms, 125
 - sellers
 - expense claims, 203–204
 - financing due diligence, 125
 - inspection avoidance tactics, 232
 - motivated, 76
 - motivations, 209
 - NOI inflation, 200
 - price, creatively meeting, 211
 - as property valuation source, 177
 - rental rate, 203–204
 - willing to accept no-money-down offers, 77
 - seller's market. *See also* real estate cycles
 - defined, 166
 - mastering, 165–168
 - selling expenses, 324
 - serial home selling
 - capital gains exclusions, 334–335
 - defined, 28, 334–335
 - strategy bypass, 28
 - transaction fees and, 29
 - short sales
 - Broker's Price Opinion (BPO), 57
 - defined, 53
 - foreclosures versus, 53–54
 - investor requirements for, 57
 - lender agreement to, 55–57
 - Mortgage Forgiveness Act of 2007 and, 56
 - opportunities, finding, 54–55
 - package, 56
 - REOs versus, 54
 - seller benefits, 53
 - time commitment, 57
 - short-term capital gains, 318

- short-term mortgages, 123
 - short-term rentals, 27
 - showing rentals
 - commercial properties, 281
 - goal, 283
 - occupied units, 282
 - with open houses, 280–281
 - scheduling, 280–281
 - selling prospects and, 282–283
 - vacant units, 281, 282
 - single agency, 91
 - single-family homes
 - benefits/drawbacks, 34
 - emotional attachment and, 35
 - performance, 34
 - smoke detectors, 271
 - sole proprietorship, 243
 - spending reduction, as saving strategy, 104
 - staging, 323
 - standardized contracts, 214
 - Standardized Metropolitan Statistical Areas (SMSA), 144
 - start rate (ARMs), 116
 - steering, 277
 - stepped up basis, 244
 - straight exchanges, 330
 - straight-line depreciation, 317
 - supplemental HVAC charges, 187
 - supply and demand
 - alternatives availability, 150
 - building permits and absorption, 149–150
 - financial performance and, 148
 - occupancy levels, 151–152
 - relationship, 148
 - rental levels, 152–153
 - suspended losses, 321, 326
- T •**
- take-it-or-leave approach, 206
 - tax advisors
 - adding, 85
 - role, 85
 - as wise investment, 308
 - tax credits, IRS rules, 18
 - tax implications, 13
 - tax lien certificates, 72–73
 - tax strategies
 - applying, 315
 - decisions and, 315
 - depreciation, 316–317
 - income tax minimization, 318–322
 - passive activity versus active activity, 320–321
 - real estate professional status and, 85, 321–322
 - understanding, 316–322
 - tax-deferred exchanges. *See* 1031 exchanges
 - taxes
 - deductible expenses, 17
 - deferred, 17–18
 - effect on real estate, 159–160
 - liability calculation, 320
 - minimizing, 318–322
 - property, 345
 - records, 304
 - tax-free rollovers, 17
 - total liability, determining, 327
 - vacation home, 30
 - tax-free gain, 334–336
 - team
 - appraiser, 96–97
 - attorney, 97–98
 - building, 83–98
 - financial advisor, 85–87
 - lender, 87–89
 - mortgage broker, 87–89
 - real estate broker/agent, 89–96
 - tax advisor, 85
 - when to establish, 84
 - teaser rate (ARMs), 116
 - 1031 exchanges
 - commingled accounts, 333
 - complications and risks, 332
 - concept, 330
 - defined, 17, 330
 - delayed, 330
 - facilitators, 332
 - in meeting goals, 331
 - reverse, 334
 - rules, 331–332
 - straight, 330
 - substituted basis calculation, 334

- three-party (multiparty), 330
- TIC investment as alternative, 66
- types of, 330
- using, 356
- tenancy by entireties, 245
- tenancy in common (TIC). *See also*
 - ownership
 - defined, 244
 - general partnerships versus, 247
 - ownership percentage, 245
 - popularity, 245
 - problems and challenges, 245–246
 - taxes and, 246
 - Tenant Pro*, 313
- tenant selection criteria
 - application of, 276
 - discrimination and, 277
 - establishing, 275–279
 - fair-housing laws and, 276
 - families and children, 277–278
 - tenant copies, 276
 - tenants with disabilities, 278–279
 - written standards, 275
- tenants
 - advertising for, 279–280
 - application decision notification, 287
 - better, repositioning property
 - with, 354–355
 - complaints, listening to/addressing, 294
 - with disabilities, 278–279
 - environmental disclosure form, 271
 - existing, working with, 272–274
 - files, 228
 - good, finding, 275–289
 - as key to success, 185
 - lease option, 336, 338
 - meeting, 272–273
 - new rental agreements, 273–274
 - perspective, selling, 282–283
 - property inspection with, 289
 - property perspective, 165
 - screening thoroughness, 276
 - security deposits, 228, 270–271
 - smoke detector information, 271
 - turnover, reducing, 342
- tenants in common (TIC) investments
 - benefits/drawbacks, 66, 67
 - buyback/loan programs, 68
 - cash distributions, 68
 - commissions, 68
 - defined, 65
 - downside, 67
 - expense, 67
 - limitations, 65
 - liquidity, 68
 - minimum investment, 66
 - ownership, 65
 - property/asset management charges, 68
 - questions for determining, 68–69
 - sales pitch, 67
 - sponsors, 66, 67
 - standards, 69
 - syndicators, 67
 - teaser rates of return, 67
 - as 1031 exchange alternative, 66
 - trophy properties, 65
 - voting rights, 65
- three-party (multiparty) exchanges, 330
- TIC. *See* tenants in common investments
- time, in real estate investing, 18
- timeshares
 - characteristics, 32
 - condo hotels versus, 30
 - defined, 30
 - first experiences, 33
 - investment problem, 31
 - types of, 32
- title
 - clean and marketable, 253
 - contingency, 220
 - how to hold, 242–251
 - title insurance, 253–254
 - title reports, preliminary, 225
- total tax liability calculation, 327
- townhomes, 36
- transaction costs
 - in buy-and-flip strategy, 79
 - defined, 13
 - high, 13
 - reducing with real estate license, 93
 - in serial home selling, 29
 - undermining returns, 167
- transactions
 - closing, 251–258
 - speed, 84
- transfer disclosure statement (TDS), 231

transferability, 174
 transferring properties, 338
 Transunion, 135, 285
 Treasury bills (T-bills), 117
 triple net properties
 bond leases, 69–70
 cash flow, 69
 defined, 69, 70
 landlord/tenant division of duties, 69–70
 lease abstracts, 70
 liability, 70
 litigation, 70
 net leases, 69
 net net (NN) leases, 70
 net net net (NNN) leases, 70
 risks, minimizing, 71
 trophy properties, 65
 turnkey properties, 355
 Tyson, Eric
 Home Buying For Dummies (with Ray Brown), 26, 224
 Personal Finance For Dummies, 104

• U •

underpriced properties, 142–143
 undeveloped land. *See* land
 unilateral contracts, 212
 unstabilized properties, financing for, 128
 upgrades. *See* renovations/upgrades
 USPAP (Uniform Standards of Professional Appraisal Practice), 97
 utilities
 billing, 229
 costs, evaluating, 187
 electric, 188
 waste collection/disposal, 188
 water, 188
 utility, property, 174

• V •

vacancies
 in NOI calculation, 185–186
 rates, 151
 vacation homes, 29–30

value
 adding, opportunities, 16
 adding, with renovations/
 upgrades, 290–292
 apartments, adding, 38
 as-is, 97
 concepts, 174
 cost approach, 197–198
 fair market, 175–176
 full market, 77
 income capitalization approach, 198–201
 increasing, 143
 investment, 175–176
 in IRV formula, 198
 market data (sales comparison)
 approach, 194–197
 three approaches to, 194–200
 value benchmarks. *See also* property valuation
 GIM, 178–179
 GRM, 178–179
 as guidelines, 177–178
 price per square foot, 180
 price per unit, 179–180
 replacement cost, 180
 use of, 177
 value-added properties, 143
 voidable real estate contracts, 214

• W •

waste collection, 188
 water usage, 188
 Web sites, mortgage, 132–133
 written contracts, 213

• Y •

Yardi Systems Property Management Solutions, 313–314

• Z •

zero-based budget, 184
 zero-cost mortgages, 120
 zoning, land investment and, 42