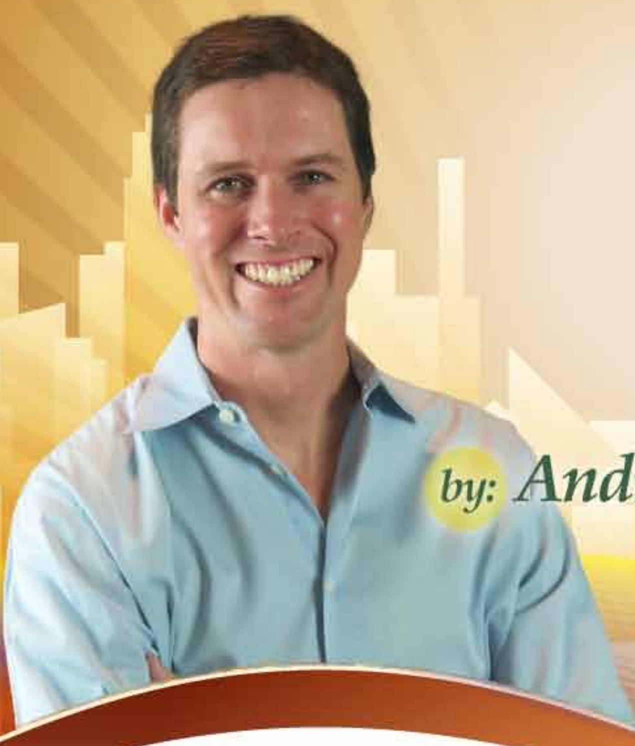
How to Find Underpriced Properties:

10 Secrets for Creating Wealth with Real Estate in ANY Economy



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Real Estate Coaching and Education for Street Smart Investors.

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When it comes to building real wealth and lasting long-term security, few can argue against the advantages of investing in real estate. No other asset class has the potential to create the kind of wealth accumulation over time as real estate does. And when tax advantages are taken into consideration, the performance of real estate as an investment becomes even more attractive. But you'll notice that I said 'over time'. And as it turns out, time is a major factor in real estate investing.

As with any market, whether we're talking real estate, stocks, bonds or currencies, fluctuations in price occur continually. It's the cyclical nature of markets. Imagine that you purchased technology stocks at the peak in 1999. You would have lost a great deal of your investment over the next few years. Does that mean you should never invest in technology or high-growth companies? Absolutely not. But it does teach us a lesson about timing. There are times in the cycle of any market where it is more advantageous to be a buyer than a seller. The real estate market is providing us one of those times right now.

Without getting into the minutia of how and why, the real estate market experienced a bubble in valuation in the mid-2000's, similar to the tech bubble of 1999. The result of the bursting of that real estate bubble is something I don't need to tell you about – I'm sure many of you experienced it first-hand. But regardless of the factors leading to it, the reason for the euphoric rise and unprecedented fall in housing prices was human emotion. When prices were rising, everyone wanted in on it. But when prices collapsed, they couldn't get out fast enough.

What is important to recognize here is that with a little education and foresight, none of you would have been investing in real estate at all during those peak years… it was just too expensive. You see, that's where we can learn from history. If we know that there are market fluctuations and distortions of price – both at the highs and at the lows – we can take advantage of this information and only buy when things are underpriced. When the market is depressed and things look the worst, that's the time to be looking for bargains.

In some areas of the country, such as the West and Arizona in particular, real estate fell by more than 75% from its peak valuation. If you had nerves of steel, that was the point at which to buy. People have to live somewhere, and if they can't afford to keep making those high house payments, they're going to have to rent. Picking up a house at a 75% discount and renting it out would make you a bundle. And as prices recover and your investment grows in value, you can leverage and look for more bargains.

So time – or perhaps more accurately, timing – plays a huge role in how much and how quickly your wealth accumulates. And if we agree that now is still a great time to be accumulating real estate, then just one question remains; how do we find these underpriced gems in the sea of real estate on the market? That's what I'm going to show you here.

You're about to learn 10 of the best ways that I've discovered to find these underpriced gems in the market. I'll show you 10 secrets to creating wealth with real estate that I've discovered in more than a decade of doing this. In fact, I'll show you how to find the underpriced values in any economic environment, not just the obvious one we're in now. I'll show you some techniques that you may be aware of, such as trustee and estate sales – but with a twist. I'll also show you strategies that you may never have considered, such as wholesaling and "subject to" sales.

So if you're ready, let's get started….

Secret #1: Using a Realtor and the MLS

If you're asking yourself why using a Realtor and the Multiple Listing Service is a secret, then pay close attention. How you use these valuable resources is the most important thing to learn.

Make no mistake about it; most Realtors are diligent, knowledgeable and hard-working professionals. If you are serious about becoming a real estate investor, or are interested in growing your property portfolio, getting to know a good Realtor is one of the best relationships you can form in the business. And once you've found a Realtor who you can build a mutually trusting and beneficial relationship with, you'll see just what an advantage they can bring.

If you had unlimited time and resources, you could probably scour the city and come up with some pretty good deals on properties – but who has that luxury? How about someone whose sole job it is to look for properties? And when they know what it is you're looking for, a good Realtor is like a bulldog when it comes to finding and bringing properties for you to look at.

Another advantage of using a Realtor is that many of them specialize in obscure areas of real estate that require in-depth knowledge and years of experience. And, these are some of the best areas to be looking in when searching for underpriced real estate. For example, estate and trustee sales (foreclosure auctions) require a great deal of knowledge about the court procedures that surround them. A Realtor that is qualified in this type of deal can mean the difference between a successful acquisition, a waste of your time, or losing your shirt.

Other areas that require specific knowledge and experience include: short sales of property, REO or bank-owned sales, foreclosure sales, and many others. These are where you’re going to make the most margin on your deals – and an experienced Realtor can improve your odds of successfully finding and closing them.

Finally, using the MLS is crucial in not only finding, but researching the valuation of properties you’re interested in. Most of us can scour an MLS, but very few of us have the knowledge and experience in reading it that a qualified Realtor does. Watching some of the experienced Realtors I’ve worked with is like watching an avid baseball fan read the box scores – they can “see” the game unfold by looking at the numbers on the page. THAT’S the kind of skill you want on your side.

Secret #2: Using a "Bird Dog"

One of the biggest limitations to finding underpriced real estate is the amount of time it takes you to scout for properties. There are only so many hours in the day and your valuable time is likely in high demand.

One way around this dilemma is to work with a property scout or "bird dog". A bird dog is someone who spends all of their time looking for great property deals and then turning them over to you. Often, a property bird dog will be someone who has an interest in real estate investing themselves, but may not have the capital or the experience yet to do these deals on their own. That's where you come in.

By offering to work with a bird dog, you get not only another set of eyes to scout for properties, but also another perspective on the potential investment properties that are out there. If the person who you choose to work with has been doing this for any period of time, chances are that they know some areas you may not even be familiar with. Which brings us to an important point, that of experience.

You should know that there has been a huge increase in the number of people offering their services as property bird dogs in recent years. This makes sense when you consider the number of people in the real estate industry who are out of work or not making the kind of money they used to. When you're looking at a potential bird dog to work with, ask to see their current property portfolio. Check out what properties and areas they focus on. Does it seem like they are a match for your investing style? Have they found properties that you'd be interested in?

The methods of compensating a bird dog for finding properties that you are interested in varies depending on the type and amount of work they actually do. For example, are they just locating potential properties using one of the many online services, or are they actually driving the properties and doing legwork? Do you want them to contact the owners of a property and qualify the potential seller before turning it over to you, or do you want to do all of the talking? These are some of the questions that will determine how much you actually need to pay for the lead.

Often a bird dog will want a flat fee for locating the property and will sometimes ask for a small percentage if the deal is completed. It's really up to you how much and in what form you want to handle the compensation, although my suggestion is to stay away from bird dogs who want a piece of the back end.

Finally, consider developing an exclusive working relationship with a bird dog that you can train and who finds properties only for you.

Secret #3: Using Wholesalers

Buying properties from a wholesaler is another great way to find underpriced real estate. The wholesaler has already found a property that is undervalued and they have gotten control of it. Now all they want to do is to make a small markup and get rid of it fast. That's where you come in.

There are a lot of reasons why someone may be selling a property at a wholesale price. Maybe they don't have the money available to close on the property, but want to make at least something for the effort they've put in. Or maybe they're an investor who has too much inventory and just wants to off-load one of his properties. Perhaps they've got other deals in the pipeline that are more attractive to them and need to get some quick cash. In any case, this may be an easy way for you to get a great deal on a property with very little work.

Some real estate investors specialize in nothing but wholesaling properties. This can be a very lucrative business. I did this for many years, in numerous different states and markets, and was very well paid for these efforts. These may be folks who don't have a lot of working capital, they may not like dealing with the banks, or they may not be interested in owning rental properties. In any case, if they've been at it for any length of time, they're probably pretty good at finding underpriced properties.

Most wholesale deals are done for cash – or at least the promise of cash when the deal closes – because the property owner needs to get out. Because of this, the purchase terms are usually agreed at a price that's below market value. How much below is part of the art of negotiation, but in order for the wholesaler to make his money he knows he must get it at a rock-bottom price. When he brings the deal to you, he makes his cut and you supply the cash that allows the deal to close.

The idea is for the wholesaler to leave enough "meat on the bone" as possible so that their buyer makes money too. Wholesalers need buyers, and that's why they'll structure this type of deal in a way that benefits everyone involved. Similarly, smart real estate investors know that they can use the expertise of a wholesaler as well; do right by them and they'll bring you more deals. As I said, it can be lucrative for all involved.

Finally, wholesaling properties can be a good skill for any real estate investor to develop. You may want to consider adding this skill to your bag of tricks. You never know when it might come in handy!

Secret #4 Attending Trustee Sales

A trustee sale involves the forced sale of a property for non-payment. Trustee sales are held as auctions, with the property going to the highest bidder. The trick to buying a property at a trustee sale is in knowing the correct valuation as well as any and all potential title issues and liens on the property.

Trustee sales or auctions are the result of a property owner's failure to pay the mortgage payment on a property. In order for the lender to either get possession of the property or get paid what they are due, they must foreclose. The foreclosure process, and the subsequent Trustee Sale auction, is the result of this. Once the auction happens either someone will bid on the property and buy it, or no one will bid on it and the bank will reclaim the property. (This is known as Bank Owned or REO property, which we will discuss in Secret # 6.)

Here's how a Trustee Sale auction works: prior to a homeowner signing the loan documents, a trustee is listed on the Deed of Trust. If the borrower goes into default for an extended period of time (this differs by lender but is usually around three months), the lender will start the Trustee Sale process. This process begins with what is called a Notice of Trustee sale, which announces the date and time that the Trustee Sale will occur. The borrow generally has the right to "cure" the default by paying off the loan or bringing the payments current all the way up until the day of the trustee sale auction.

There are certain considerations to take into account when it comes to trustee sales. First, they are cash-only sales. A cashier's check for the full purchase amount is required in order to take ownership of the property. Next, there are usually no inspections allowed of the inside of a property prior to the sale. (A caveat to this is if the property is listed in the MLS or if the potential investor is able to "find" access somehow. Remember caveat emptor.) Also, once the sale is completed, there is no undoing it – so you had better be sure of what you're getting into.

So, now that you understand the considerations of a trustee sale, you may be wondering why it is worth the risk. Well for one thing, properties at one of these sales can often be purchased at a 15% to 30% discount or more to their market value. So if you're careful and do your research, you can get a great deal. But there are some tricks to buying properties at auction, as you can imagine.

Although it may seem counter-intuitive, properties for auction in an area with high foreclosure rates can actually be bid up beyond their market value. Why? It works like this. With people losing their homes to foreclosure, the rental market becomes very heated – everyone has to live somewhere, right? So, the foreclosed homes are in high demand by those who can buy them and turn them into rentals. The supply of foreclosed properties becomes stretched and those that do go to auction are bid way up. This is why you need to know the correct valuation.

Walking the fine line between paying too much for a property at auction and losing all of your bids because they're too low is the art of playing the trustee sale game. Get the valuation right and you win. Experienced auction buyers will look at the top-of-market valuation for a property in a given area and use that to bid against. Knowing this can make you one of the lucky winners.

Secret #5 Short Sales

A short sale is a process in which the lender agrees to accept a discounted payoff to release an existing mortgage. Short sales can be like navigating a mine-field, but with the right precautions, you can get a great deal on an underpriced property.

The short sale process itself is like a battle zone, not for the inexperienced

or faint of heart. The fact that a lender must agree to take less than the value of the loan is reason enough for them to make it a painful process. Next, add to the situation that the seller is upside down and can no longer make payments – they're going to lose their home. In addition, the valuation of a short sale property is often at or above comparable prices for recently sold homes. So, how can we use this technique to find and buy underpriced properties?

For one thing, be prepared to pay more than the short sale asking price. How much more is going to depend on the difference between the asking price and the value that remains on the loan. Probably the biggest factor in the bank's consideration of a short sale is what they feel the value of the property is. The bank will do its own "independent analysis" of the value of the property. If the short sale asking price is in line with what they believe to be the value, chances are very good you will get the offer accepted. Keep in mind that banks are horrible at valuing property and this can be to your advantage. An all-cash offer with proof of funds will also go a LONG way toward getting your offer accepted by the bank. If you've done your homework and the property meets all the requirements of a good investment, then this is one way to overcome the odds.

Some other things to think about when considering a short sale purchase:

- Research what is owed against the property and whether any other loans are recorded against it. Are there any liens that need to be satisfied? It is vastly complex and many times not worth pursuing if there is more than one lender that you have to deal with. Think about it: you have to get two lenders to take a “hair cut”. This is a very tall order.

- Check pending sale prices for properties in the area. Because of the length of time that many short sales take to complete, pending sales will likely be the comparable sales at the time the deal is closed. Generally speaking short sales sell for 10% - 20% less than then that of a traditional sale. Price your offer accordingly.

- If you are not experienced in the nuances of short sales, consider obtaining a realtor who is very experienced in the process. Also, ask about the listing agent’s experience level – there are a lot of hoops and you don’t want to miss out because of their mistake.

- Finally, be prepared to wait. Short sales take a long time to complete, mainly because no one is all that motivated to get it done and record their losses. Be patient and do your part to ensure everything is filed correctly – you may just wind up a winner.

Secret #6 REO Properties

Everyone dreams of owning real estate – except for the banks, that is. For them, real estate is too illiquid and too expensive to manage. So we can help them with their problem by taking that old unwanted real estate off their hands.

An REO, or Real Estate Owned property, is one that the lender has had to take back onto their books after a foreclosure and unsuccessful auction. Since

what is owed on the loan is almost always more than what the property is actually worth, the banks usually end up holding these properties because no bids were received that would satisfy the loan. Since the bank isn't in the business of property ownership – they'd much rather own your mortgage debt – they're now in an undesirable situation.

Depending on how many properties the bank currently holds on their books, you may be in a good position to make them an offer below market value. And banks are often horrible at determining a listing price. This means that they may dramatically underlist the property, so if you are paying attention you could be first to write an offer at full price and get a smoking deal. Obviously, in times of economic hardship such as we've experienced in the past few years, banks are more likely to hold a lot of REO properties on their books. Since it is their fiduciary duty to their shareholders to get rid of these properties, they will usually do the hard work of evicting the owners, performing any necessary repairs, and generally getting the property ready for sale. This alone can save you a lot of time and money. Keep in mind that the repairs that a bank will do will mostly be safety issues and general clean-up. It is very rare that a bank will do cosmetic repairs that would increase the value of the property. Remember, banks are NOT in the property business… they are in the lending business and this works to our advantage.

Banks that do hold a large number of REO properties are often willing to bundle properties into a bulk sale. The more properties in the bundle, the better the price per unit is likely to be. Bulk REO sales can be a way to acquire a large number of properties, some of which can be turned over quickly at wholesale in order to recover some of your costs. It works kind of like this:

Let's say a bank has a bundle of 5 properties in an area that you know and are interested in. If the total price for these properties is $600,000 then each property costs $120,000 as an individual unit. If the discount to market value is 30% - typical in many of these bulk REO sales – then each can be wholesaled for around $160,000. So you can see that if you were to wholesale 3 of the properties and take in $480,000 then your cost basis for the remaining 2 would be $60,000 each. And that's assuming you did an all-cash deal. With a little creativity, you may have been able to control these properties for 20% down and wind up with a tidy profit for very little risk.

Secret #7 Estate Sales

Estate auctions of real estate and property are often court-mandated and controlled. If you know the hoops to jump through and the legal requirements of this complex process, you can find some great deals on underpriced properties.

Estate sales, probate sales and trustee sales are all terms applied to sales of real estate and property that are mandated by the courts to satisfy an estate settlement. These types of sales or auctions involve a series of court-regulated steps which must be followed in a careful and timely way. If you aren't used to buying real estate through this process, you would be well advised to work with a real estate lawyer or Realtor who has experience with the courts or these processes.

Since these sales are complex, many people simply avoid them. If you are willing to do a little extra work, this may be a way to get a good deal on an underpriced piece of property without as much competition as you may be used to. The entities involved in an estate sale are: the court, an executor, trustee or administrator of the estate, the listing agent, your agent, and any other interested bidders. In addition, the time required to close on estate sale property is often far longer than other types of real estate transactions.

When you make on offer on a property in an estate sale, be prepared to place up to a 10% deposit with the court at the time you submit the offer. The trustee then has the option of accepting or rejecting the offer. Once the court has accepted an offer, depending on the laws of the state, they will add a fee and sometimes a percentage to the offer price, which is now the probate price. Now comes the fun part.

After the court-mandated waiting period where the property is marketed at the probate price, you get to go and bid on it. They have your offer, so that's where the bidding starts. If you are the sole bidder, then the probate price is accepted and you are the winner of the auction. If there are other bidders however, be prepared to increase your bid over what you've previously offered. This is why it's crucial to understand not only the value of the property, but how the process works.

It is the court's responsibility to get the most money they can for a property which they are responsible for selling at auction – and they take this responsibility very seriously. If you are diligent in your research… and a little lucky, you could come away with a great deal.

Secret #8 “Subject to” Sales

As we know, financing for real estate deals can take many forms. One of the more interesting is called a “subject to” sale. Although it may sound complicated, this is actually a good way to buy underpriced property… if you can find the right situation.

A “subject to” sale is one in which the buyer takes the property subject to the existing mortgage against it. In other words, the buyer gets the deed, but does not assume the loan on a property. The loan stays in the original owner’s name, but you now control the property and make the payments. As strange as that may sound at first, this is actually a great way to start building a rental property portfolio.

Look at it this way. If a homeowner can no longer afford to keep making payments on his home, he has few options. If he has no equity in the home, is upside down, or even in foreclosure, the only real options are to walk away from the home or to stay as long as he can and get evicted. Where you can help is to bring the payments current, save what’s left of the owner’s credit and perhaps let him stay in the home for a short time until he can find a living arrangement he can afford. In return, he signs over the deed for the property and you agree to make the payments from that point forward. You are essentially taking over his loan.

If structured properly, this can be a true win-win situation. The homeowner gets to keep his credit alive and not have to default or file bankruptcy. You get to assume a property without the hassle of qualifying and tying up a lot of capital. If the owner needs any further convincing that this is a good deal for him, you might even put a clause into the contract that calls for buying out his mortgage in a certain amount of time. Otherwise you can just keep on making payments and collecting rent on the property.

Most mortgage lenders have a “due on sale” clause in their agreements, and this can lead a lender to demand full payment of the loan upon transfer. This assumes the lender even knows that a transfer has taken place, which is not very likely. But in actuality, a lender would not want to enforce this clause in the contract with the interest rate environment we are now in. It would cost the lender money up front to do all of the paperwork, and for their efforts they would probably be lending again at a much lower rate than they are currently collecting on the property. No, it’s in everyone’s interest to leave things as they are, as long as the payments are kept up. Which of course they will be!

Secret #9 Using a Lease Option

A lease option, or more accurately a lease with the option to purchase, can be an effective way to buy a property with very little down. This is a form of seller financing, and has been used successfully for years.

One reason someone might consider a lease option – also called lease to own, rent to own, lease to purchase, etc. – is if they don't qualify for a conventional loan. This is fairly common in these times of stricter loan requirements and higher scrutiny of buyers' qualifications. In many cases, the lease option is a way for the potential buyers to gain some time, while building a little investment in their prospective property. Here's how it works.

You've found a property that you're interested in and make an offer to the seller. In a market that is depressed, a seller may be willing to entertain a lease option – especially if it covers the cost of the mortgage and taxes on the property. Typically the payments on a lease option are higher than they would be for a simple rental. In addition, you are often putting in money up front as a form of down payment that would apply to the purchase at the end of the lease period. Good for the seller.

As to the advantages for you, the agreement can be structured for a period of usually between one and two years, during which time you are building up "equity" in the form of a portion of the lease payments made each month. How much of the payment applies to the purchase of the house is negotiable at the time the lease agreement is being drafted. By the end of the lease period, the hope is that you will have built a stake in the property and that you can now qualify for a loan to complete the purchase.

At the end of the lease period, even if you don't qualify for a loan, or decide that you do not want to purchase the property, the appreciation on the home may mean that you want to exercise your option in the form of a double-escrow and sell it to someone else. Or, if you had planned ahead, you might have included a transfer or "assign" clause in the original agreement. In any case, this assumes the property has increased in value and that you have equity in it.

But beware, the risks associated with a lease option rest more on the lessee than the lessor. If for example the property fails to appreciate, or actually drops in value, your equity is lost. Even if you could qualify for a loan to buy it, why would you? Also, the situation that prevented you from qualifying for a loan in the first place might not improve, and you would lose your equity.

Secret #10 Seller Financing

Seller financing is one of the best ways to acquire properties that are underpriced, just beware. Although there are plenty of advantages, doing your homework and verifying the value of a property is never more important than with a seller-financed deal.

Seller financing can be one of those win-win situations that we're always on the lookout for. It has definite advantages for the seller, and if you do the right legwork, it can be a real advantage for the budding property investor as well. Aside from the obvious advantage of not having to go through the lender qualification process, there are other benefits of the owner carrying the note on a purchase.

Conventional loans have always required a buyer to go through a painful qualification process – ok, maybe with the exception of the early and mid-2000's. But after learning their lesson the hard way, lenders are more careful and less helpful than ever before. Not to mention the historically low interest rates that they get for their troubles. It's enough to make any loan underwriter grumpy.

But if a seller is willing to finance your purchase, you can bypass most of the flaming hoops and yawning chasms that go along with traditional loans. Seller financing has numerous advantages for both the buyer and the seller.

- A fast sale in an environment where many houses are on the market for an extended period of time.

- Reduced closing costs and time to close.

- More flexibility in financing properties that may not meet stringent requirements.

- A steady income stream at sometimes above-market rates.

Of course there are some drawbacks as well…

- Both parties must have trust for each other and act in good faith. This is true of stated income, all outstanding encumbrances, senior secured debt, etc.

- Procedures for foreclosure and eviction become less clear with seller financing.

- Buyer may abandon the property if things get tough.

But if you're careful and do your research, this can be a good deal for all involved!

Put it All Together: How to Get One-on-One Guidance from a Real Estate Investor Who Has Been There, Done That

We're nearing the end of our journey together. I hope this ebook has opened your eyes to the opportunities of finding underpriced properties that exist in your town...neighborhood...maybe even right next door.

If you've decided that real estate investing is for you -- that you want the financial and lifestyle rewards that it affords you -- the next step is to take MASSIVE ACTION.

And one of the most effective ways to do that is to work one-on-one with an experienced real estate investor who knows how to generate serious income with real estate.

There are lots of so-called real estate "gurus" out there. Most of them don't actually know the first thing about creating wealth with real estate. They're commission-based salespeople who get paid to sell a system and then leave you to struggle through it on your own, or $10/hour "coaches" who are reading a script. Even in the case of experts who have made money with real estate in the past, they haven't kept up their practice, and they use old-fashioned, outdated techniques that just don't work in today's economy.

I'm different.

Real estate is my primary business. It will ALWAYS be my primary business. I created StreetWise Property Investing in order to share some of the information I've learned and help others along the way. I am involved on a daily and weekly basis making real deals happen in the real world. I know what works right now…and what doesn't…and why.

And I can coach you through the process.

As opposed to when you work with other real estate "training" companies, you get one-on-one access to the real expert…me. I'll sit down with you on a weekly basis and help you analyze real deals…make real offers…negotiate real terms…

In short, I'll help you make your real estate dreams a reality, faster, more affordably, and with less risk than you could ever do alone.

If you'd like to find out if real estate investing is for you, contact me today for a FREE Investing Aptitude Assessment. This is a 30-minute, one-on-one conversation that will help you determine if you're in a position to be a profitable real estate investor…and if so, what your next steps are.

This is an incredibly important first step that will help you revolutionize your portfolio and life. To get your FREE 30-minute, one-on-one assessment, simply head to the link below.

http://StreetWisePropertyInvesting.com/Assessment

I look forward to meeting with you soon.

To your success,

Andrew J. Werner

Andrew J. Werner
Real Estate Investor