

# The Abandoned Property Investor's Kit



**Find the Owner,  
Buy Low (with No Competition),  
Sell for Big Profits**

**REGGIE BROOKS**



WILEY

John Wiley & Sons, Inc.

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# CHAPTER 1

## **How I Got Started Making an Extra \$43,000 Investing in Abandoned Properties—And How You Can Too!**

*A declining market is the best market in which to make money.*

*—Donald Trump*

Abandoned properties represent a lucrative opportunity for you to make money no matter where you live—in the middle of a bustling metropolis or in the heartland of America. There are abandoned properties right now in your neck of the woods just waiting to be bought for less than market value. You can make some repairs and sell them for a quick profit, or hold them while you methodically build a real estate portfolio. Either way, by following the proven strategies that I lay out for you in this book, you can grow rich in a relatively short period of time. I know because I've done it, and many of my students all around the United States have done it, too. You'll find our stories and what we've learned (and what we've learned that was wrong!) throughout this book.

Before I get into all the details of how investing in abandoned properties works and how much money you can realistically hope to make, I think it's important to explain exactly what an abandoned property is. The phrase *abandoned property* conjures up a mental image, probably negative, of a house that is falling down, a yard overgrown with weeds, broken windows, and boarded-up doors, in a seedy part of town. That stereotype is only partly accurate.

If you limit yourself to thinking of abandoned properties as fallen-down dumps like these, you will severely limit your market—and your income potential. Abandoned properties can also be houses in decent neighborhoods and sometimes even luxury homes in exclusive neighborhoods. An abandoned property can literally be any house in any neighborhood. Your profit potential is limited only by your imagination and your ability to seek them out.

Basically, an abandoned property is one whose owner has walked away from it, usually with no regard for what will happen to it at some point in the future. People walk away from their homes for many different reasons. Sometimes it's because of a job loss, a job relocation, or a divorce. Sometimes it's due to an illness or even a death. Other times it's because they feel they can no longer afford to keep it.

Still other times it's because they're facing foreclosure. Rather than suffer the indignity or embarrassment of a foreclosure, people sometimes opt to cut their losses and walk away voluntarily. This presents a very special opportunity for you, and I show you in a later chapter how to combine foreclosure and abandoned properties into an exceptional moneymaking opportunity.

Most people, when they learn through media accounts that the real estate market is in decline, automatically assume that the reports are accurate. What the general public often fails to realize is that gloom and doom are the media's lifeblood. Media pundits are sometimes irresponsible (and often ignorant) about the way they report information; they take isolated numbers from selected markets to substantiate their theory of the day and thereby scare people into thinking there's no money to be made in real estate anymore. This is especially true with the way the media reports on foreclosures.

The ongoing increase in the number of foreclosures spells opportunity for you, because this increases the number of abandoned properties available to you. However, as a result of negative media reports about a declining housing market, many would-be investors sit back and decide to delay investing, and thus miss out on the tremendous opportunities that foreclosures—and abandoned properties—present in this kind of market. They put off their investing endeavors until times get better, and thus miss the chance to make a lot of money. I agree with Donald Trump that a declining market is the best market in which to make money. A declining market combined with high foreclosure rates and abandoned properties is exciting, not because people are hurting, but because these conditions make it possible to make money while *helping* people.

In a heavy foreclosure market there are more people who are so desperate for help that they are on the verge of giving up and walking away. When this happens, the number of abandoned properties goes up exponentially. If you can make contact with these people when they most need immediate help and relief, they are highly motivated to work with you because they feel a sense of urgency. However, keep in mind that even if they decide not to work with you at present, this can change very quickly. Additionally, when the number of foreclosures is down—and keep in mind it's been trending up for some time—there are still many good abandoned properties from which to choose.

The point I'm trying to make here is that the foreclosure market is what it is. If you wait for the news media to endorse your real estate investing strategy, you'll never jump in, because the media almost always gets it wrong. When they happen to get it right, it doesn't last because they're almost always reporting the *trends* incorrectly. Let me give you an example. Back in the 1990s when technology was the investor's promised land, the media

pundits didn't get on board until the wave was cresting. If you had waited for the media's blessing to make your move, you would have lost your shirt—maybe you did.

## **Investing in Abandoned Properties Is a Public Service to Your Community**

Beyond the obvious financial benefits to you, there's another excellent reason to get involved in abandoned properties: You'll be providing a vital service to your local municipality as well as to law enforcement. Abandoned properties, even those in good condition, are magnets for criminal activity. An abandoned property is a problem for local officials because the windows can be broken out or it can be illegally occupied by people who want to use it as a squatters residence or for drug manufacturing and distribution. Local officials may even be happy to help you identify an abandoned property or to locate the owners of record.

So not only will you be doing yourself a favor from a financial perspective, you'll also be helping to solve the problem of urban blight, doing your part to reduce the incidence of petty and violent crime. As you can clearly see, investing in abandoned properties is a win-win for all parties.

## **Foreclosures Feed the Abandoned Property Market**

Foreclosure doesn't require the active participation or agreement of the homeowner to take place. If a lender has started the foreclosure process and the owner simply walks away from the property, the foreclosure process will still play out. Sometimes there are so many foreclosures that

they inundate the abandoned property market. As crazy as it might sound, at times lenders will take on so many of these properties that they can lose track of what they own!

A good example of this is one of my first abandoned property deals. Even though the numbers on this deal do not reflect current prices, it's important that you grasp the principles I'm illustrating. While the prices and profits on abandoned property investing may change over the years, the principles pretty much remain the same.

Years ago, I was driving down Wilmington Avenue in Los Angeles, when I looked up and saw an apartment building that had been abandoned and was all boarded up. I wrote the address down and pointed the car towards home. Back at my home office, I began to research the address and soon discovered that it was a four-unit apartment building. Each apartment had two bedrooms and one bath. The property had already gone through the foreclosure process and had been taken back by a bank in northern California.

When I contacted that bank, they said they didn't have a record of owning this property. I gave them the street address and the loan information I had discovered, and asked if they would please research the property because I knew that they had taken it back; perhaps it just hadn't surfaced yet. Two days later, they called me back to tell me what I already knew.

They had already held the property for two years after foreclosure, and the building had become abandoned. I said I was very interested in it and asked how I could go about buying it. They told me they had a real estate broker in Marina del Rey near Los Angeles, which was a lot closer to me than their office in northern California, and suggested I submit an offer to him. Funny how one minute they were unaware that they even owned the property, and now there was suddenly a broker involved.

I contacted the property broker, told him I wanted to submit an offer on the building, and asked if they had received any other offers. The broker said they had received six offers in addition to mine, which was \$75,000. I was incredulous. Until two days prior, nobody seemed to know that the bank even owned the property; suddenly there were six offers on it.

I smelled a skunk, but I couldn't prove it. I suspect the broker probably called some friends and said, "Hey, I have a great deal for you! The crazy bank didn't even know they owned it; it's an abandoned property. They got it back in foreclosure, it's a four-unit apartment building. It's a really sweet deal. I've only got one offer on it for \$75,000."

I opted to play it smart. I decided I'd ask two strategic questions: "Are bidders going to receive counteroffers?" The answer was yes. The next question: "Will you be fair and counter everybody with the same price?" When he answered in the affirmative, I sighed. It was a start, at least. The bank's counteroffer was \$80,000.

It suddenly occurred to me that I needed to be creative and think outside the box. I needed to come up with a strategy that would give me an edge over my competition—sometimes that's all you need to be the winner. My competition knew this abandoned property was a good deal. They would probably be so excited when they received the bank's counteroffer that they'd just sign it and submit it as soon as they could.

I was smiling when I wrote at the bottom of the offer, "Buyer is willing to pay \$82,000 for subject property." I was fairly certain none of the other offers would be more than \$80,000. If the other parties simply agreed to the bank's counteroffer, I had a high degree of confidence that an \$82,000 offer (which was beyond the bank's \$80,000) would be enough to put me over the top.

Here's why: I knew that all the offers and counteroffers had to go back to the bank in northern California, and I knew what the bank officers were up against. They were interested in dollars, so they would sell the property to whoever could give them the largest net. At the same time, I also knew that there weren't very many investors who were willing—or able—to think outside the box, so I had a very good chance of getting the property.

Sure enough, the bank awarded the property to me. My wife and I kept that property for many years, enjoying a positive cash flow every month. We eventually sold it for a tidy sum.

Do you see the potential here that an abandoned property represents? It's difficult to wrap your mind around the idea that a concept so simple can have such massive implications! When you add the power of foreclosures into the mix, it borders on unbelievable.

Don't be concerned that you don't know enough about abandoned property. I'll teach you how to approach the owner—and how to successfully negotiate with the owner. Regardless of the real estate market cycle or economic climate you might find yourself in, you're going to be amazed at the consistent investment opportunities that abandoned properties represent.

I'm going to give you the specific nuts-and-bolts skills to make this work. It may seem a little overwhelming, but I want you to realize it's not difficult. Anyone, regardless of their educational background—or financial situation—can succeed in abandoned property investing. It doesn't matter whether you're brand-new to real estate or if you've been around the investing block before. What matters is that you have the desire to learn and the heart to succeed. By combining these two qualities you're going to be unstoppable in your quest to become financially secure. In

time, when you follow my program, you will become successful.

One of my students, Gary Hoskins, is a prime example. Gary has been investing in abandoned properties for many years now, and he's made a fortune doing it. I'm going to take you back to the very beginning of Gary's abandoned property investing career, in hopes that you will realize that a novice investor who decides to specialize in abandoned properties can do extremely well for himself.

When Gary came to me, he had no prior real estate investing experience and he had no money. All he had was a dream to improve his life and \$20 for one of my real estate information seminars. He walked into that seminar with a quarter-sized hole in the bottom of one of his tennis shoes. He walked out with a plan for turning his life around by investing in abandoned properties.

Gary still had no money, but he figured the money would come when he found a property, so he started looking. Very soon he found one. After locating the owners and some haggling over price and terms, he discovered they would sell it to him for \$80,000. The catch was that he had to come up with \$6,000 in cash. Gary left that meeting with the sellers feeling a little demoralized. He didn't have any cash or any way of coming up with it. He began to fear that his dream might not come true, at least not right away. He didn't own anything worth selling, and because he was on temporary disability, he couldn't work overtime at his job to earn the money he needed. Gary decided to sleep on it. Maybe the answer would come to him while he slept.

The next day Gary was telling a few friends about his dilemma. Three of them had some cash, and the fourth had a car he wasn't driving; he had been planning to sell the car so he could repair the roof on his house. After a little thought, Gary had an epiphany: If the friend could sell the car for the cash needed to help invest in the house, there

would be enough money left over for the materials needed to repair the roof! Since Gary knew how to do the roofing repairs, the friends could all work together to fix the roof and then to renovate the abandoned property. He cobbled together a partnership and his friends ponied up the cash—\$1,500 apiece.

They had a house and the potential for a good payoff when the property sold. Now they needed to get to work on repairs and renovations. It was Gary's first investment, so he played it safe by being very liberal in his estimates. He estimated repairs would cost \$13,000, but with some creativity on his part, he was able to come in almost \$4,000 under budget. He got many of the supplies he needed at a large discount by purchasing closeouts and discontinued items. There was nothing wrong with these items, and since he was already getting contractor pricing, he saved even more.

Because he had to make repairs mainly on weekends and during the evening after he got off work from his regular job, it took about five months to renovate. He was able to make steady progress every day and he grew more and more excited as he checked each item off his list. Finally, it was done.

Here's how the financials on his first deal broke down: He bought the house for \$80,000 by giving the owner a \$6,000 down payment. Repairs were just under \$10,000. The house sold very quickly for \$140,000. After expenses, that initial deal netted the fledgling business partners a profit of \$50,000!

They weren't done yet. Driving home from the closing, they saw another property that looked like a good possibility. When he made contact with the owner, Gary negotiated a subject-to sale for \$145,500.

Here's an interesting side note. Gary was learning to do no-money-down abandoned property deals, and subject-to was a strategy that this deal cried out for. Gary's attorney was drawing up the contract for him, but when Gary introduced the idea of subject-to, it caught her off guard. The attorney did not understand the concept of subject-to. She was careful to inform Gary that this did not mean the technique could not be used; she simply needed to learn more. Gary called me from his attorney's office, put her on the phone with me, and I explained it to her. Once she understood the strategy, the deal was on. (In Chapter 8 I explain this technique, as well as others.) After remodeling and expenses, they were able to sell it for \$342,000! In just a few months they turned a profit of \$96,000.

Gary knew at this point that he had found a new career. It had become more lucrative for him to invest in abandoned property than it was to work at his regular job. It was time to make the leap.

To celebrate, he surprised his girlfriend by flying her to Maui for a fantastic vacation. Gary told me the beaches were beautiful and it was easy to enjoy the surroundings as someone who could now afford some of the finer things in life. And he bought a new pair of shoes!

## **How I Got Started**

It hasn't been all that long since I was a beginning investor in abandoned properties. But you have an advantage that I didn't: You have a book to guide you and to help order your steps. Much of what I've learned I had to learn through trial and error.

When I was younger, I decided I wanted something more than just a job. At that time I was working a bunch of dead-end jobs. I lived in a very poor part of Los Angeles,

California, a high-crime area where witnessing criminal acts was a routine event.

A police officer once told me, “You know, son, you live in one of the worst parts of town. The safest thing to run through your neighborhood is a speeding bullet.”

When I was 17 I dropped out of high school. I had made it to the 11th grade when I decided I needed to help my mom by quitting school and getting a job. I thought I could best accomplish this goal by bringing money in from whatever menial job I could find—and I found a lot of them. I worked as a service-station attendant, a welder, a machinist, and a mechanic. I really didn’t care what the job was or how backbreaking the work was; I just wanted a paycheck at the end of the week that I could take home to my mom.

Then I got what I thought was my lucky break: I landed a job at the local phone company. They hired me even though I hadn’t graduated from high school, and I felt fortunate to finally have such a good job. I stayed with the company and worked hard for 18 years, eventually reaching the point where I was making \$3,000 a month before taxes; after taxes, I probably netted around \$24,000 a year.

Yet it just wasn’t enough to meet my needs. I could not pay my bills. I needed much more than what I was making. By then my wife and I were just barely getting by financially. I was fortunate enough at that time to have a couple of cars, but unfortunately they were both wrecks and undependable. Since I got paid every two weeks, I frequently found myself a week away from payday, with both cars driving on fumes and less than two dollars in my hip pocket. Not only did I need a change—I was *committed* to making a change.

Little did I know my life was indeed about to change—for the better. I came home from work one evening, dog tired as usual. As I was watching TV, an infomercial came on. The

man in the infomercial said, “Hey, I teach real estate, and I’m going to be in your city. If you will come to my seminar, I’ll teach you how to make more money in your spare time than you can make in a full-time job.” As I watched, I got more and more excited. I decided then and there that I really didn’t have anything to lose.

I went to that seminar. I sat there and I listened and I learned about real estate. I learned how I could not only make money but, more important, how I could legally keep the money that I did make, thanks to real-estate-friendly provisions in the IRS tax code.

I realized this was a better way. It sure beat the heck out of what I had been doing. I became a sponge for knowledge. I found a way to purchase the home-study course they were selling at the seminar that day.

Now, I didn’t have any money. As the saying goes, I was so broke, I couldn’t afford to pay attention. What I had was a commitment to my future, and one thing I found out was that when you have a commitment, you find a way. I was so very committed that a way found me—an investing partner.

We decided that, since my partner had more financial resources than I had, my partner would front the money for that single home-study course. We took diligent notes; we listened to the tapes; we read the books; and we even made a detailed outline for the future. We did something that many other people who go to seminars don’t do: We took action. A lot of people just sit there like a bump on a log, won’t take any action, and barely even take any notes, but we took action.

Within six months I was making \$4,000 a month from my real estate holdings, and, not too long after that, it skyrocketed to \$42,000 a month. But that first \$4,000 was the sweetest to me because it represented true financial independence.

I was still earning \$3,000 a month on my job at the phone company. To make that much I had to spend 8, 10, and sometimes even 12 backbreaking hours, five and six days a week. All of a sudden I could lie in my bed and sleep all month long and still bring in \$4,000 a month. I didn't have to do much of anything for that money to come in. I'd manage some tenants and the money would just show up every month. I began to realize that I was on the right track. The stories I'd heard about real estate were not only true, but they were working for me every day, every month. I was hooked.

It occurred to me that I needed to find a way to leave my job at the phone company, because by this time I was making more part-time investing in abandoned properties than I was making on my full-time job! I remember telling my co-workers, "Man, I'm investing in real estate now. You guys should come to a seminar with me and learn about this wonderful thing because it's going to change my life. And as soon as the phone company starts to get in my way of making more money, man, I'm out of here; I'm walking."

Immediately, my friends all turned on me. They said, "Reggie, that's stupid. That's dumb. You can't change your life like that. You can't get rich in real estate anymore. You can't do no-money-down deals." They had bought into the notion that there's no such thing as a win-win deal. If somebody wins, somebody else has to lose. That may be true in football or baseball, but in real estate I had learned to put together win-win deals in which everybody wins.

I made a decision, and I encourage everyone to make the same decision: Don't trust your future to the financial advice coming from your broke friends. If they don't have any money and you follow their financial advice, you're going to end up exactly where they are! I decided then that I was only going to listen to successful people. I figured if I wanted to become a multimillionaire, I had better be

listening to multimillionaires. They would probably have the insights I needed to become one of them, part of their exclusive club.

I went ahead and gave notice to my boss. Now I had no choice but to kick myself into high gear and prove that my reason for quitting wasn't a fluke. I had to prove that I could go out there and do real estate deals whenever I wanted to. More important, I had to prove to myself that quitting a stable job of 18 years wasn't a mistake.

It was kind of scary. There I was, listening to tape after tape and reading books and listening to a ton of good advice from multimillionaires. But two weeks later I was still looking for a profitable deal, and couldn't seem to find any. Then, on one of the tapes I was listening to, this multimillionaire sounded like he was talking directly to me. It even sounded like he said, "Reggie, listen to me! I want you to tell everybody you know that you are now investing in real estate."

Well, I was done listening to my broke friends. I was listening to this millionaire, and I took his advice. I told everybody I knew that I was investing in real estate since I quit my job at the phone company.

About a week later, I got a call from my cousin, Greg, who said, "Hey, Reg, I hear through the grapevine that you're investing in real estate nowadays. Maybe you should come over to my neighborhood because there's this great property that's a little beat-up, a little run-down, but maybe you can do something with it." I got in my car and I shot over there like a bolt of lightning.

What I found turned out to be the first abandoned property that I ever invested in. The windows were all broken out; the door was hanging off its hinges; there were even holes in the side of the building. The grass would have been overgrown, but it couldn't grow anymore because it

was dead! When my wife and I first looked at that property, we thought, “Oh, my goodness, what can we do with *this*?”

My training in those seminars had been like going through boot camp. We had educated ourselves by listening to tapes and reading books, so I realized this was a diamond in the rough. This was exactly what astute investors looked for: a property that was distressed and an owner who was highly motivated to sell. We found that owner, learned that he was ready to sell, and I told him that if he would deed the property to us, we would give him \$10,000.

Remember, this was our first abandoned property, as you can see from the numbers on this deal. Making that offer was a big mistake. When we said we’d pay him \$10,000, he almost jumped out of his skin and asked, “Where do I sign?” That was enough to tell me I was paying too much. I was leaving too much money on the table. I could possibly have given him \$2,000 and he would have been just as happy. But we had offered \$10,000 because we just didn’t know any better.

What we had now was an abandoned property that yielded us, in a month and a half, \$43,000. The property had a first mortgage of \$19,000 and a second mortgage of \$5,000. We gave the owner \$10,000 for the deed, so that’s \$34,000 so far. We then spent about \$7,000 to fix it up, so now we’re in it for a total of \$41,000. We sold it for \$84,000, making a profit of around \$43,000. If we had not been so new at this, we would have checked the value of comparable properties (comps) and learned that we could have sold it for \$125,000, which would have been a profit of around \$84,000.

We left \$41,000 on the table because of a lack of knowledge. However, for a kid who had never finished high school, who had dropped out in the eleventh grade, who had just quit his job at the phone company after 18 years when he was making \$36,000 a year, this looked like a great