

# THE NEW PATH TO REAL ESTATE WEALTH

EARNING WITHOUT OWNING

Chantal Howell Carey and Bill Carey



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THE NEW PATH  
TO REAL ESTATE  
WEALTH



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To all our families, friends, and foes,  
without all of whom . . . who knows!

From each we have learned many lessons  
through all the “school of life time” sessions.

We thank each and every one of you  
for whatever part you were meant to do!





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# P R E F A C E

You've lost money in the stock market. Bank certificates of deposit interest rates are pathetic. Which direction are the yields on Treasury Notes going this week? The real estate market is hot, hot, hot! You want to invest in real estate, *but* . . . You don't know how or where to find a good deal.

You have heard about making money with fixer-uppers, *but* . . . You're not good with fixing things that break around your house, so how are you going to repair the plumbing in a fixer upper?

*The New Path to Real Estate Wealth: Earning Without Owning* is your answer. Our step-by-step system is designed to take you from the basics of real estate investing to the sophisticated information that only the insiders know. Whether you are a new or experienced real estate investor, we will show you how to make big money in real estate.

This book reveals the ultimate real estate investment secret. Control the paperwork of real estate—the contracts, mortgages, and deeds—and you control who makes money in real estate. Buy and sell real estate paper and you never have to buy or own property itself.

You don't have to have good credit. You don't have to qualify for a mortgage. You don't have to be a landlord and deal with problem tenants. No repairing the plumbing. No paying property taxes. No being sued by someone who gets hurt on your property.

We show you how to find good deals and then flip either the property or the contract and make money. You will learn how to write a great offer, get it accepted, and then assign the offer to another buyer for thousands of dollars. We teach you how to control property the way Walt Disney did using real estate options without revealing your interest in the property to your competitors.

We show you how to buy mortgages and trust deeds at a discount and receive a 25 to 35 percent return on your investment. You will learn how to buy government tax liens and have 100 percent guaranteed security of your investment.

*The New Path to Real Estate Wealth: Earning Without Owning* is the first book to combine the information on flipping real estate, assigning contracts, using real estate options, and buying discounted paper and government tax liens all in one place.

Although there are good books on several of these subjects, they are too narrowly focused and leave the reader with only one way to make money in real estate. We offer the only book that gives the reader the four best ways to make money in real estate investing. All four can make you big money without buying or owning property!

# I N T R O D U C T I O N

Over the years, we have traveled from coast to coast teaching real estate, financial, motivational, and interpersonal skills seminars to our students. We are always striving to be on the leading edge.

Regarding real estate, we have taught everything from buying and selling it creatively as an individual or investor to core classes for licensing and passing broker's exams. Just about anything you can think of related to real estate, we have taught to someone somewhere!

With a new millennium comes new ideas. We have distilled the knowledge and experience we have gained from buying and selling real estate for ourselves and our clients and helping our students over the past three decades.

*The New Path to Real Estate Wealth: Earning Without Owning* is the fifth real estate book we have written. Our first book, the best-selling *How to Sell Your Home Without a Broker* is in its third edition. This book was picked as one of the top 10 real estate books for 2001 by Robert J. Bruss in the *Los Angeles Times*.

Our fourth book, *Going Going Gone! Auctioning Your Home for Top Dollar* was also written to benefit the homeowner in the selling of a home. Like *How to Sell Your Home Without a Broker*, our auctioning book was designed to show you how to successfully sell your home yourself without paying a commission.

*The New Path to Real Estate Wealth: Earning Without Owning* is the first book in our new series designed specifically for real estate investors. This Win Going In series will take you from being a novice real estate investor to being an expert.

Our premise for the Win Going In series is that no matter what kind of real estate investment you are going to make, you have to win going in. It is no longer enough to make money on the back end of a deal or make a profit when you get out of a deal. The deal has to have a profit built in on the front end or else you shouldn't do it at all.

*The New Path to Real Estate Wealth: Earning Without Owning* is a breakthrough book for new real estate investors. We know that the

prospect of buying and owning real estate investment property can be quite daunting if you are just getting started.

This book takes you from the real estate basics through the four best ways to make money in real estate. From flipping property to assigning contracts to controlling property using options to buying discount paper, *The New Path to Real Estate Wealth: Earning Without Owning* teaches you everything you need to know to become a successful real estate investor. In all four areas we train you how to make money without buying or owning property!

For experienced real estate investors, we welcome the opportunity to broaden your real estate investment horizons. How would you like to make money investing in real estate and never have to deal with a tenant again? How about never having to make a mortgage payment or pay property taxes? What about no more repairs and maintenance to deal with?

*The New Path to Real Estate Wealth: Earning Without Owning* is written for active real estate investors. This is a hands-on book that teaches you how to go out into the real estate market and make deals happen. What is unique about this book is that we show you how to have a Quick Cash investment strategy that you can successfully implement with little or no investment capital.

If you are a passive real estate investor, this book is not for you. We will not teach you about limited partnerships or joint ventures. This book will not show you how to get involved with real estate investment trusts (REITS). Passive real estate investments are for another book and another time.

Although these are all potential money makers for the passive real estate investor who doesn't want to buy or own real estate, we don't recommend you go this route at this time. There have been too many negative investment results for the passive investor over the past five years.

Our philosophy is that you need to be in control of your investments. Counting on a stock broker, investment advisor, accountant, general partner, or real estate fund leaves you completely out of control. When you are an active real estate investor, you are the one calling the shots. You are the one responsible for your successes and failures.

Our purpose for the Win Going In series is to teach you all our real estate knowledge and expertise. We want to be the Brain Trust for your successful real estate investment career. You will know you are being a successful investor when you make money on your first deal. We would



love to hear about your successes. Also, we want to hear what is working for you and what is not working for you. Please e-mail us at [thetrustee@hotmail.com](mailto:thetrustee@hotmail.com) or contact us through our publisher, John Wiley & Sons. Good luck and good deals!

Chantal & Bill Carey



THE NEW PATH  
TO REAL ESTATE  
WEALTH



SECTION ONE

REAL ESTATE BASICS



# Deciding on Your Goals

Decide on your goals *before* you invest in real estate. Knowing your goals helps you determine many of the aspects of your real estate investing. Your goals might include:

- Deciding how much time you want to spend investing in real estate.
- Deciding how much money you want to make.
- Determining how long your time horizon is to achieve your goal(s).
- Having specific goals, such as quitting your job or buying a new car.
- Earning a monthly income by carrying mortgage paper.
- Receiving as much cash as possible in a short period of time.
- Clearing your schedule so you can focus on real estate.
- Maximizing your profits while minimizing your risks.

## Deciding on Your Goals

Take a blank piece of paper and start writing the goals you have for investing in real estate. Write whatever comes to your mind. After you have written five to ten goals, prioritize them by placing a number to the left of each goal. Then take another blank piece of paper and rewrite your goals in order of their importance to you.

This prioritized goals sheet is your road map for real estate investing. The goal(s) become your destination point(s). However, having a road map does you no good unless you know where you are starting out. We need to examine the variables of the real estate market and the variables of your life as a real estate investor to determine your starting point.

## Understanding the Real Estate Market

In trying to understand the real estate market, it is important to understand how most people think about it. By knowing what everyone thinks about the real estate market, you can design a strategy to take advantage of the little-known secrets that the truly successful real estate investors use to make big money.

*When* you begin investing in the real estate market can affect how successful you are going to be. You need to consider the time of year, interest rates, the economic climate, and tax regulations, as well as your own financial condition. You'll also have to keep in mind credit rating, cash available to invest, and time available to invest (after all, time is money!).

### *Time of Year*

In residential real estate, some months of the year are considered better than others for the sale of homes. The question is, better for whom? The residential real estate market is controlled by real estate agents and is biased in favor of sellers. Knowing about this bias can be useful to you as a real estate investor.

You are a buyer first. Therefore you have to be extra-sharp going in because the deck is stacked against you. Most sellers are represented by real estate agents. Even if you work with an agent as a buyer, in most states your real estate agent is legally working for the seller. In Chapter 3 we show you how to use agents to *your* advantage when buying real estate.

The more buyers looking to buy real estate, the better it is for sellers. February through July/August are the best months to sell real estate. You can see from the chart that the best months to sell are the worst months to buy! The best times to buy are the worst times to sell (see



September through January in the chart)! *However, we are going to show you in this book how to make any time of the year work for you.*

### ***Interest Rates***

Interest rates obtainable by buyers may greatly influence the number of potential buyers available. When interest rates are low, the number of buyers generally increases. The number of potential buyers increases greatly if this period of low interest rates immediately follows a period of relatively high interest rates.

When interest rates are high, the number of buyers generally decreases. The number of potential buyers decreases greatly if this period of high interest rates immediately follows a period of relatively low interest rates.

What does this mean to you, a potential real estate investor? When interest rates are low, there are lots of buyers for your properties if you have properties to sell. However, if you are trying to buy properties, then there may be lots of competition from the many buyers brought into the market by the allure of low interest rates. This may mean you have to work harder to find a good deal. *We are going to show you how to win no matter what the market rates are doing.*

### ***Economic Climate***

A healthy national economy, and especially a healthy regional economy, can be important in determining the best time to invest in real estate. When the regional economy is good, the number of potential buyers who feel confident enough about the future to invest in a home usually increases, and the price of homes increases, too. Because the number of potential buyers generally decreases in areas experiencing an economic slump, it may be better to retain your property during these times if possible.

A rule of thumb in the real estate industry, like in other industries, is to buy low and sell high. This is easy to say but hard to do. When everyone is saying how terrible the real estate market is, that is when you want to buy! When everyone is saying how hot the real estate market is, that is when you want to sell. Most people buy at the top of the market and then try to sell at the bottom of the market! *We will show you how to buy low and sell high in any market.*

## ***Tax Regulations***

Tax regulations relating to real estate are particularly important because they may affect your timing in real estate investing. When you are buying real estate, there are some nice tax deductions available associated with real estate loans (points, loan origination fees) and closing costs (escrow fees, title insurance).

When you are holding real estate, there are some nice tax deductions available associated with real estate interest, property taxes, and depreciation. When you are selling real estate, there may be a major tax consequence associated with capital gains, recapture of depreciation, or both.

Please remember that although this book contains the latest version of the current tax regulations related to real estate, Congress passes tax regulations that are retroactive. This means that Congress can pass a tax law in September or October and make it retroactively apply to January 1.

Just like being advised to check with your doctor before beginning an exercise program, we advise you to check with your tax adviser before you begin investing in real estate. Let's look briefly at some of the current tax regulations.

**Sale of a Principal Residence** Current tax regulations say if you are single and selling your principal residence (your home), you can exclude from capital gains tax up to \$250,000 of capital gains. If you are married and selling your principal residence, you can exclude from capital gains tax up to \$500,000 of capital gains.

Whether you are single or married, you can do this over and over with each new home. The only requirement is that you must have owned and lived in the property two of the last five years.

What this means is you could buy a home, live in it for two years, and then sell the home, make \$250,000 or \$500,000 in profits (depending on whether you were single or married), and not pay any capital gains tax! Theoretically, you could do this every two years. Some people make buying, living in, and selling their principal residence their real estate investment strategy.

**Sale of Investment Property** When you sell investment real estate you have to pay tax on any profit you make in the tax year that the sale occurs. If you sell investment real estate less than one year after you purchase it, any profit you make will be taxed at ordinary income rates.

This can be very expensive. If you sell investment real estate more than one year after you purchase it, then any profit you make will be taxed at the more favorable capital gains rates.

Another option with investment real estate is to do an Internal Revenue Code section 1031 tax-deferred exchange. This is a special Internal Revenue Code section that allows you to exchange or trade like-kind property for another like-kind property and defer the tax consequence until a later time.

As long as you are exchanging property you are holding for the production of income (rental property) or property you are holding for investment (raw land) for like-kind property and you follow the correct procedures, you will be able to defer the tax on any profit you have in the transaction.

By the way, you can exchange rental property for raw land and raw land for rental property under 1031 and still qualify for the favorable tax treatment. You are not stuck with exchanging raw land for raw land or rental property for rental property, which obviously would qualify as like-kind property.

Finally, recapture of depreciation can occur when you are selling property you are holding for the production of income (rental property). Without getting too complicated, suffice it to say that recapturing depreciation is bad. You do not want to recapture depreciation. Currently you will be taxed at a 25 percent rate on any depreciation you recapture in the sale of rental real estate.

## **Understanding Your Financial Condition**

It is important to understand your financial condition as you enter the real estate investment arena. How much credit can you obtain from real estate lenders? How much cash do you have or can you free up to put into real estate investing? Can you find cash partners to fund the good deals you find?

We'll start by looking at your credit rating.

### ***Your Credit Rating***

It pays to have a good credit rating. People who have fallen on hard times, have late payments, or have credit problems like charge-offs and

bankruptcies pay a high price. They are charged higher interest rates, pay more in loan origination fees (points), and have to make larger down payments than the people who have a good credit rating.

You may think you have a good credit rating and find out at an inopportune time, like when trying to get loan approval for one of your real estate investments, that one or more of the three major credit reporting agencies has inaccurate or false information in your credit report. This may delay or completely derail your obtaining the financing you need to close your transaction.

We recommend that you acquire a copy of your credit report from all three credit reporting agencies every six months. The statistics aren't good when it comes to the accuracy of credit reports.

It is estimated that 7 out of 10 credit reports contain at least one inaccuracy! You know you have great credit, but if the credit report contains any inaccuracies, then as far as the financial institutions are concerned, you have bad credit once they receive your tainted credit report.

You can clean up your credit report yourself fairly simply. When you find an inaccuracy on your credit report, call the company that has placed the inaccurate information on your report and ask them to remove it. They will usually do so. Call the credit reporting agency to obtain the phone number of the company that has placed the inaccurate information on your report if it is not contained in the report. The credit reporting agency must give you the phone number.

Request that the company send you a copy of the letter they send to the credit reporting agency correcting the mistake(s), and request that they send the same letter to all three credit reporting agencies. That way you are covered in case the inaccurate information is in the pipeline, headed to the other credit reporting agencies that appear to be clear of the bad information.

If you have good credit and your credit reports reflect that accurately, then you are ready to proceed with your real estate investing adventure. If you have good credit and your credit reports don't reflect that accurately, then we recommend you proceed to clean up your credit reports and move forward with your real estate investing.

If you have bad credit, we recommend that you clean it up as best you can and move forward with your real estate investing. Don't wait to begin real estate investing until you have good credit. The time to begin real estate investing is now. *We will show you how to be a successful real estate investor whether you have bad credit or good credit!*