

## **FINDING YOUR PATH** **THROUGH THE REAL ESTATE MAZE**



*by* Joe Locklear

**Perhaps the most common mistake made by new real estate investors is getting into the business without first developing a comprehensive business plan.**

Even when a comprehensive plan is developed, if that plan does not accurately identify and conform to the investor's available assets, ability and time frame, it is destined to failure.

Many would-be entrepreneurs chase the "magic bullet". Having listened to the "Gurus", they believe that there is a certain method of investing that will bring them success and riches. While that *may* be true, it is also true that we are all unique. Each of us is the product of many influences. Our parents, education and experiences have worked together to mold us into whom we are. We are also born with certain traits and tendencies that strongly influence our personality. To push the idea that there is one single entrepreneurial method that will work for us all is simply folly.

**So, where should you begin? What should you do FIRST and how can you determine the best real estate methods to bring you financial success? The answer to all these questions and more is within the pages of this **FREE eBook.****

Creation of an effective business plan may be compared to planning a trip. There are three main elements of planning a trip. Omit any one of these elements, and you will not create an effective plan.

*These three major elements are - **Where are you? Where do you want to go?** and **How long do you have to get there?** These three elements create a solid framework for creation of a simple entrepreneurial business plan. So, enough theory, let's get started!*

### **Where are you now?**

- A. *Traits & Abilities* – What are you “good at”? Do you love to fix things up, or do you tend to buy only good conditions items? Are you a good “salesperson”, or do you more often avoid direct negotiating? Do you like bookkeeping, or like myself, just throw receipts in a box? Are you more of a “leader or a “follower”? There is no good or bad here – just understand YOUR unique *traits & abilities*.
  
- B. *Background & Education* – I once had a student tell me he had a master's degree in business management. My reply was “you can overcome any obstacle”. Don't get me wrong, education can make things much easier for you, but formal education is NOT the key to real estate success. Just review your education and experience identifying

what you have learned that will help you in any particular endeavor. For example, a construction management degree (or trade school) will make renovation work easier; while a communications degree may be better applied working directly with banks and Realtors.

C. *Assets* – be honest with yourself. What do you have with which to work?

- a. How much initial start-up **CASH** can you “comfortably” allocate to your real estate endeavors? If the answer is \$10,000 or more, you will have access to many options. If the answer is only \$100, your choices will be extremely limited.
- b. How is your **CREDIT**? A credit score above 675 will be a great asset, but don’t be discouraged as when you choose the right methodology, poor credit will not prevent you from succeeding.
- c. How much **TIME** can you invest pursuing your real estate goals? Whether you realize it or not, TIME is your most valuable asset. Money can be earned and credit can be restored, but *time* can never be recovered or replaced. Spend it wisely. Do you have an hour a month, or twelve hours a day to devote to real estate? Again – no good or bad answer here. The time you have available, however will be a major factor in determining your real estate path.

Hopefully by using the above information, you can now do a pretty good assessment of where you are now, based on your *abilities, education and assets*.

### **Where do you want to go?**

As with planning any trip, determining your destination is usually your first step. In real estate however, it is often given a low priority, or even overlooked entirely. Without a thorough understanding of your REAL goals, there are no means of defining success. Simply stating “I want to be rich” is not a destination. After all, some of the richest people in the world are also the most miserable. Are riches really your desired destination? If they are, when you arrive, you might be disappointed. I want you to take some time to identify your REAL desired destination. This may involve looking deep inside yourself and determining what you really want from life. Few of us have really done a good job of determining our *real* goals.

You must define your own goals; however I want to give you a few examples of answers from some of my students. **“Freedom”** seems to be the number one answer. With me, I want to wake up every morning and decide what I want to do on that day. Having money is a “means” to my goal, but not my actual goal. I also want to change the lives of my children and grandchildren for the better. Again, make sure your destination reflects your REAL goals in life.

## **How long do you have to get there?**

I live in Jacksonville, Florida. If I need to get to San Francisco, California – what are my options? The answer is “It depends on how much time you have to get there”. If I have only eight hours, a jet flight may be my only option. If I have three weeks, my options are open. Heck, I could hitch-hike there in three weeks. Similarly, whether you have just a few years, or half a lifetime to reach your real estate goals will be a major consideration when choosing your path through the real estate maze.

Hopefully by now you are beginning to understand that the most important factor in determining where you should apply your real estate efforts is YOU!



Take some time right now to assess your situation and jot down some notes. Pay particular attention to...

**Where am I now?**

Abilities

Education

Assets

Cash

Credit

Time

**Where do I want to be?**

**How long do I have to reach my destination?**

Okay, you hopefully have taken the above exercise seriously. You have the basics outline of a business plan and are ready to look at what I call the "Real Estate Menu". This menu will describe the real estate methodologies that I believe are the basics of the entrepreneurial real estate market. Not every method will be included, as I refrain from writing about methods in which I have no direct experience. I will state within the description of each method what I consider to be its *advantages* and *disadvantages*. I have applied all of the below methods...

## Real Estate Menu to Success



**#1 Wholesaling** – Successful wholesaling is the process of contracting to purchase real estate at a certain price, then assigning the contract to someone willing to pay more than the contract price. This is the most common method, but I do know successful wholesalers that close on the purchase and then later re-sell the property. One successful wholesaler that I know options the property and assigns his option for a fee. Whatever the actual method utilized, wholesaling is marketing a property in as-is condition. Your sources of properties might include Realtors that sell bank foreclosures and motivated private sellers and your buyers are usually landlords and retail rehabbers with only an occasional owner-occupant.

Contrary to what many will tell you, wholesaling is NOT easy. It takes a lot of time and effort to build a clientele of buyers and more than a little expertise to contract houses at below wholesale prices. Remember you must sell at wholesale, therefore you must buy at sub-wholesale. Imagine the difficulty of making a living buying cars at such a low price, you could wholesale them to car dealers. While not “easy”, it is a business in which a savvy entrepreneur can do very well.

As one of Northeast Florida's premier wholesalers, I can tell you that for me, it has been well worth the effort. I began building my wholesaling business in December of 2001. My initial investment was around \$10,000 and about \$4,000 monthly. By month four, I had recapped my investment and began working 100% on profits. Attributes of a successful wholesaler might include real estate and sales/marketing expertise and a willingness to work long hours and invest a moderate amount of money. Services that you can provide your wholesale buyers (i.e. value determination, private financing, rental projections, renovation costing, retail marketing and property management) will add great value to your wholesaling business. Funding sources for a wholesale business include individual savings and lines of credit. Since this is a business venture and not an investment, I would hesitate to begin a wholesaling business on borrowed money.



## #2 Buy, Renovate & Resell –



Just like the title line implies, you buy a house, renovate it and then re-sell it for a profit. Investors that operate in this arena are often called “Retailers”. Your sources of buying the property would include bank foreclosures (from Realtors/Banks), buying from wholesalers and direct purchase from motivated sellers. Your buyers will almost always be owner occupants. The easiest place to begin is buying from wholesalers. Try to find a wholesaler that will mentor you through the entire entrepreneurial process. Once you have a couple of properties under your belt you may want to try buying direct from Realtors or private sellers. I have customers that have purchased over twenty homes from my company. They feel that the mentoring they receive has been worth more than what they “might” save buying direct from sellers. Other customers buy one or two properties from my company, and then progress on to buy direct. You must determine which buying method best fits your particular needs. You will need enough cash to purchase, renovate and carry the soft cost until the property sells. Sources of this money might include personal funds, a line of credit or a private mortgage loan. Make sure you fully understand financing and seasoning issues before you buy your first property. What seems a simple detail, can later (when it comes time for your retail buyer to get financing), become a major obstacle.

Property Renovation can be accomplished under your own management, or under management of a licensed professional contractor. Unless you are well experienced, do your first couple of deals with a licensed contractor. You may later choose to supervise the rehab directly, but remember – when you do carpentry work (or even construction management work) you get paid at those rates. I don't know about you, but I need to make a lot more money than that.

Likewise, when it is time to sell – get professional help. Hire an MLS Realtor that is aggressive and utilizes “state of the art” internet marketing techniques. I could not find a Realtor that I was comfortable with, so I had to build my own. My son Adam Locklear (Owner of Locklear Realty LLC) handles all of my retailing and does a fantastic job. He has a bachelor's degree in business and economics and utilizes every method of reaching buyers that he can discover. It is a fact that 90% plus of all retail buyers begin their property search on the internet. It is not enough to simply “post” on the internet. Find a Realtor that has a proven track record of finding qualified buyers on the internet and uses up to date and cutting edge technologies.

The positive aspects of retailing include the fact that you can borrow most of the money needed, hire a competent rehab contractor and then hire a competent realtor to sell the property. Your time can be spent locating good houses, planning and managing the project. You can begin retailing with one property on a part-time basis, but managing more than a couple of simultaneous projects will require a full time effort. When buying a property to retail, the property must be in a good neighborhood. Ask yourself the question “Would my family feel safe

living here?” Another important question is “Can the family that is comfortable living here obtain financing?” If the answer to either of these questions is no, find another property to retail.

Banks are very hesitant to lend money to purchase and renovate housing. They prefer to lend on a home that is in good live-able condition. Funding for retailing may come from personal savings, lines of credit or private lenders. As a wholesaler offering comprehensive mentoring and services, I have solicited several private lenders to provide funds to my buyer/retailers. They require that the borrower be able to pre-qualify for a permanent Fannie Mae loan, or that the borrower is willing to invest some of their own money (usually about \$10,000).

**#3 Landlording** – In my opinion, there is no better path to riches in real estate than owning rental property. Perhaps becoming a “Guru” and selling education can be more profitable in the short run, but even then all that money has to be invested somewhere, and rental property is that “somewhere”. If you are looking to make a little cash as soon as possible, forget landlording as it is a get rich “steady”, not “quick” business. I have been President for multiple terms, Vice President under Ron Legrand and deeply involved with the Jacksonville Real Estate Investor’s Association for many years. I can tell you that without exception, the investors that have been successful over the long-haul are ALL landlords. While I make my daily living wholesaling, landlording is my investment in the future. Our family portfolio is in excess of 30 properties and growing every month.

Due to the unbelievably low housing prices, we will add around 8-10 houses this year.

**So, why is landlording so profitable? Here are a few reasons...**

**Cash Flow** – Cash flow occurs when your income from rental property is greater than ALL of your expenses. A common mistake of novice (and even experienced) entrepreneurs is to underestimate expenses and therefore invest too much in the property relative to its ability to produce income. In this target-rich environment, it is *easy* to buy high cash flow properties, so use your cash and credit wisely. I just bought a home on a double lot for \$6,000. I will spend \$10,000 in improvements and rent it for \$725 monthly. This is an example of SUPERB cash-flow. After all expenses and paying for professional management, my NET spendable income will be around \$450 monthly. For the rest of my life!

**Fixed Rate Financing vs Increasing Rents** – Unless you have lots of cash, your investment in rental property will require financing. Long-term financing should *always* be fixed rate. NEVER sign a mortgage with an adjustable rate. Here in Jacksonville, Florida (and most everywhere else), foreclosures are at an all time high, while the ability for the lending institutions to process these foreclosures has not kept pace. The average processing time is now over two years. Foreclosed homes are often vacant through most of this process. In Jacksonville, however we are still experiencing a stable or even slightly increasing population. Once a family is displaced, they will probably be renters for the next several years. So what

does this mean to a landlord? It means that the supply of rental housing is decreasing while the demand is stable or even *increasing*. My vacancy rates are low and when a vacancy arises my rental manager is able to quickly place good tenants. The combination of fixed rate financing and increasing rents is the key to creating real sustainable income in real estate.

**Tax Advantages** – Now I am certainly *not* a taxation expert. I don't get involved in everyday bookkeeping or tax planning, I do know however, that were it not for depreciation, capital gains treatment and other landlord friendly tax laws, I would pay a LOT more in income taxes. If you still have a job or other source of earned income, make sure that ownership of rental property is held within an entity that can pass-on losses to offset earned income. Get with a good accountant and pre-plan your tax strategies early as it may be difficult and expensive to change them later.

**Equity Growth** – Fixed rate and term financing requires a fixed number of level principle and interest payments. With every payment made, the balance decreases a bit until the last payment satisfies the mortgage. This may not sound too exciting until you realize that your tenants and not you are paying the mortgage payments. Everybody pays for real estate, but it is not always the payor that winds up owning the property. There are other methods of getting properties free and clear, buy equity growth is one of the best and the only one that is totally without cost to you.

**Appreciation** – Appreciation is when a property's value increases due to external factors, the main factor being scarcity. A perfect example is

waterfront property. Since the supply is very limited, the prospect for *long term* appreciation is good. Jacksonville properties have historically enjoyed a rate of annual appreciation of around 5-6%. One of the biggest mistakes you can make is to *depend* on appreciation to make a property investment viable. When and *if* it occurs, appreciation should be your bonus. Buying for cash flow is insurance that you will be able to hold it long enough for appreciation to become a factor.

Inflation is the Landlord's Friend – When teaching my class titled the same as this eBook, I ask the following question...

“If inflation increases rents and expenses by 5% in a given year, what is the net result on cash flow?” The answer is almost always – “no change in cash flow”. That answer is incorrect. The correct answer is a net cash flow increase of 3.75%. Let's assume expenses are 25% of rents and do the math. Rents increase by \$50.00 and expenses increase by \$12.50, a net gain of \$37.30 or 3.75%. If you project this over several inflationary years, the result is a big increase in spendable income, not to mention that the fixed rate mortgage is being paid off in inflated dollars that are now worth less. I spent an entire day building an Excel spreadsheet to analyze a property's cash-flow over 10 years with an entered rate of inflation. The results were eye-opening. Just like appreciation, there is no guarantee of future inflation, but most experts agree that it is very likely.

**Availability of Professional Management** – I strongly advise beginning your career as a landlord utilizing professional management. I am speaking from my own experience when I tell you the professional manager can be the difference between success or failure as a real estate entrepreneur. DO NOT step over a dollar to save a dime here. Hire the pros! I pay 10% of collected income to my manager and I am happy to do so. My portfolio is netting more profits now than it ever did when it was “self-managed”. The 10% is easily wasted when you are too busy to send the 3-day notice promptly or handle maintenance calls efficiently. A manager that does *not* own the property will garner more respect from tenants as they know that he or she has no power to bend the rules. A good property manager will pay for themselves, leaving you to spend your time acquiring more properties and building your business. Don’t waste your valuable time doing that which you can delegate to others. Hire a manager!



**Multiple disposition options and flexibility** – When you buy a house to retail, you have only one disposition option – sell it now. Rental property however is much more flexible. Your holding period should depend on your overall business plan. My personal plan is to never sell, but to retire on the net income and leave free and clear property to my heirs. Yours may be to sell some houses to pay others off, or to sell after only a few years, so as to leverage upward into multi-family. Whatever your strategy, owning several rental houses will allow for very flexible business planning and disposition options.

**#4 Investing** – You will never see me refer to myself as an “Investor”. As my real estate related activities are varied and diverse, I prefer the term “Entrepreneur”. While an entrepreneur constantly looks for new opportunities to make money and build wealth, an investor is more concerned with earning a predictable rate of return on money that he or she has already earned or inherited. The success of my business is dependent upon the successful participation of numerous “investors”. These investors provide capital to my buyers (and sometimes myself) to purchase and renovate houses. They earn an average return of around 18% annually by creating short-term mortgages. The buyers utilize the mortgage proceeds to buy and rehab a house, then either retail it or refinance it and hold it as a long term rental. Some of my investors work with over a million dollars, while others invest only 20K. The important factor here is that you do things properly.

It is imperative that you become very educated on the lending process, or better yet, work with a proven and trusted mentor. I have investors that have made scores of short-term loans with excellent results. You need to be certain that you have set-up assurances that the rehab work will be done properly, by licensed contractors and that proper insurance is in place. Rehab funds should be escrowed and be released only after the work is accomplished. Don't try to "wing-it" here – get the help of experienced investors and entrepreneurs.



## Summary



Okay, let's do a brief review of what I like to call the real estate "menu options"

**Wholesaling** – Takes a lot of expertise and a lot of available hours, but can be a good way to earn a good living. Houses are sold to investors as-is.

**Buy, Renovate & Resell (Retailing)** – Similar to wholesaling, but you are selling to owner-occupants for higher profits (and more headaches). Retailing almost always involves renovation.

**Landlording** - Is more about building wealth and a lifetime income than earning a daily "living". Owning property is the surest path to real estate wealth and can be accomplished utilizing professional management.

**Investing** – Once you have acquired capital, this is a good way to safely earn a great annual return. You will need advice from an established and trusted mentor to succeed here.

Now that you have a reasonable understanding of the basic methods, you should be able to analyze them in light of your own assets and abilities. Remember, there is no one method that is best for everyone. The four methods that I have described in this eBook are not the only ways to success in the real estate business. While I believe them to be the most tried and true, there are successful entrepreneurs operating in various other venues (short sales, note buying, auctions etc.). I never try to educate anyone in any area that I cannot show personal success so I did not include these methods. That does not make them any less valid. Once you have built a simple business plan (where you are, where you want to go and how long you have to get there), and have chosen a method, you need to absorb all the education you can on that subject.

I will be offering Real Estate Educational Courses right here in Jacksonville, FL for the remainder of 2011 and on into 2012. If you would like to attend please contact me or visit my website to see what events are coming up.

I will be writing more real estate education for beginners and novice investors in the near future. I encourage you to stay connected!

**Topics to be covered in my classes and eBooks will include:**

Real Estate Basics  
Finding your Path through the Real Estate Maze  
Portfolio Strategies  
Finding Private Money  
Landlording  
Property Renovation  
Real Estate Marketing  
Asset Protection PLUS MUCH MORE!

If you would like to hear more right now, please visit my YouTube channel and subscribe to my page. You will be able to watch videos about real estate entrepreneurs and investors, plus get free updates and tips on the real estate investing market.

My  channel can be found at:

<http://www.youtube.com/belowwholesalehouses>

I hope that this eBook has been of some value to you and if so, please let me know. My email address is [joelocklear@gmail.com](mailto:joelocklear@gmail.com).

Best wishes for your real estate success!

Your Friend and Fellow Entrepreneur,



Joe Locklear

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My profiles:     