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# **THE MCGRAW-HILL 36-Hour Course REAL ESTATE INVESTING**

**SECOND EDITION**

**Jack Cummings**



New York Chicago San Francisco Lisbon London Madrid Mexico City  
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# ACKNOWLEDGMENTS

When a writer sits down to write a book, there is an anticipation that a love affair is about to start, and no matter how tedious the work may be, the affection for the manuscript is steady, virtuous, and faithful. That love affair occasionally is renewed when the audience—and therefore the publisher—demands a new edition. Like all love affairs, the second time around can be far more demanding than the first. So it has been with this edition. Demanding because of the need to improve, to be fresh and up-to-date, and to deliver more information that is helpful and informative to the book's readers.

When the work to attain those goals is completed, there is a period of mixed emotion—an elation that the newly revised child is born, yet a sadness that the love affair has ended, and worst of all, despair that until the next book is begun, the writer is out of work, a feeling that many writers and actors understand very well.

When finally asked to “dedicate” the book to someone, there is a moment when all writers scramble to find the person they should acknowledge as a primary driving force for the book, while at the same time not prematurely ending offers for new books, and certainly not stepping on toes, hurting feelings, or cutting off possible loan sources when times might get tough.

Fortunately, for this book at least, this dedication is made with a clear conscience and sincere thanks. Many years ago, my first editor for the first book I was to sell was a young editor at Prentice Hall who called me on the phone one day to ask me if I would be interested in writing a book. That book turned out to be *The Real Estate Financing Manual*, and that man was to teach me a great deal about the writing profession, and about myself. That book is as of 2008 in its ninth edition, and my sincere hope is that there will be many more to come.

It is because of his continued faith in me that I dedicate this book to my good friend and first editor, Ted Nardin.

# INTRODUCTION

We are in a historic time of financial upheaval. This is the time of chaos and opportunity. Each of these produces the other, and here we are: the start of the decade is well behind us, and both chaos and opportunity still exist. At the time of this writing the real estate marketplace has undergone the greatest drop in prices you may ever see. Yet I and all my investor “insider” friends are excited about this—though the excitement is not without mixed emotions. Opportunities are popping up all around us, while at the same time many people are losing their jobs and their homes and are frustrated with what is happening to their lives. And who is to blame? Or is that really important now? The important thing for all of us is to realize the market does rise, fall, and rise again. Lessons of what we should *not* have done hopefully will protect us from making similar mistakes in the future. What we need to do is to realize that we can now prosper in this chaos.

All of this sadness, as does all the darkness of sadness, has a silver dawn. For us who consider real estate the gold mine of our future, all of this is good news. Now is the time to move into this market. But now is also the time to be cautious and mindful that whenever there is chaos there are charlatans ready to take your money. So this revised book, which has survived the years since it was first written, is dedicated to the survivors of this chaos and to those who need not have experienced the drama of its impact to learn the lessons it has taught. This book will pillow you through the darkness and show you how to apply proven methods and techniques so that you can take advantage, not of those who have lost their fortune but of the moment your opportunities present themselves to you. This is the ripe time of real estate investing. Do not let the season slip past you.

Today, sellers are the most motivated I have ever seen them be, and buyers who are prudent, patient, and persistent will be able to make the best investments they may ever see.

Are you new at the real estate game, or have you been investing in real estate for years? Either way, the time is right, and this book has been updated to provide you with the hottest tips and advice possible. Not only is this book for you, it is the best place for any real estate investor to begin because it is designed to deal with the modern problems that real estate investors will likely encounter. This book will show you how to best attain your desired goals, whether they are modest, such as to get out of renting and own your own home, or more lofty, such as to become wealthy and financially independent through real estate investing.

The simple but wealth-building techniques in this book are designed to stimulate your creativity and build your confidence. In fact, by the time you complete the book and have begun to implement its outline for your comfort zone plan, you will be on your way to becoming an expert in your area and a true “insider” in the real estate

investment club.

Not only will you grasp the concepts of investment, but you will also realize that with the right plan, you can double your investment even if you have to sell your property for less than you paid for it. Does this sound like a paradox? Not so, and its secret is so easy to understand you will wonder why you didn't think of it yourself.

This book will get all would-be real estate investors moving in the right direction and help all investors, no matter how knowledgeable, to maximize their efforts to reduce risk and to produce more profitable results from their investments.

Are you concerned or confused about timing? Do you wonder, *Is now the right time to get into real estate?* The simple answer is yes. Now may be the very best time in your entire life—because the real estate market is about to end its spiral to rock-bottom prices and bust wide open. The mortgage interest rates indicate it, the mood of the market is in favor of the buyer, and “now” is here. All you need to do is to learn how to invest successfully in real estate—not just learn some tricks that worked for someone else, but *learn the solid foundation that the “insiders” use to build fortunes.*

But don't be surprised, and don't be misled. To learn this art properly is not as simple as some TV promotions and late-night lecturers would like you to believe. Let's face it: learning how to become wealthy requires effort, study, and determination. *The McGraw-Hill 36-Hour Course: Real Estate Investing* will be your college education in real estate investing, and it will lead you to the self-confidence you need to be successful in real estate investing.

Real estate investing is, as you will discover, a study of history. The history of why the real estate market goes up and down will give you the inside track on where your local market is headed. Successful real estate investing is nothing more than seeing opportunities, realizing they are the right ones for you to grasp, and knowing what to do next. These opportunities, by the way, are easy to spot when you understand the marketplace and how and why you can turn a property into a cash cow or an item you can resell for a substantial gain on your investment.

You will find that the factors that govern the rise and fall of real estate values are relatively simple. Most of the forces that affect the real estate market and control this rise and fall of values are evident for everyone to see and follow. The key is to know where to look, how to read the signals, and what to do to take advantage of the situations and opportunities as they present themselves to you. The idea of becoming an expert in the real estate market is not a complex task of knowing 100 techniques or being able to calculate mortgage interest rates in your head. The ultimate key is to know what your goal is and to become the *local* expert on the kind of real estate that can help you attain that goal.

All real estate fluctuates in value, and this fluctuation is governed most dramatically by local situations such as the local economy, population growth, and so on. Wider-based secondary forces such as nationwide building starts or national unemployment figures can often be more misleading than helpful unless you know and understand the local picture of things. It is quite possible that your local area defies the national trends.

This book is a unique approach to the idea of “learning how to become a real estate investor.” It is an easy read, and it provides an easy-to-follow course of study that will establish a sound platform for you to launch your real estate investment career.

## HOW TO USE THIS BOOK

In writing this book, the author has drawn on more than 30 years of solid and very successful real estate investing experience. The material provided within this book is based on varied experience as an investor, developer, financial adviser, Realtor, and a widely published author of many real estate investment and finance books.

The book is divided into four main parts. Each of the four parts contains chapters that relate to the main topic of that section. These divisions are as follows:

Part 1: How to Begin Your Successful Real Estate Investment Career

Part 2: How to Maximize Property Value

Part 3: Finding the Best Property for You and How to Purchase It Right

Part 4: How You Buy Establishes How You Profit in Real Estate Investing

A final exam is available online in addition to helpful tabular materials.

### How the Book Is Designed to Work with You

Each of the chapters has an introduction that describes chapter goals and segments that define key terms and discuss the chapter concepts. In addition, some chapters include examples, case studies, practice exercises, and useful forms.

As you examine the book you will discover that these segments provide the basis for this 36-hour course. They are the primary elements of this text, which, within an average of 36 hours, will give you the fundamentals you need to approach real estate investing as a knowledgeable insider. In a unique way, once they are introduced, some of the trends, techniques, and concepts mentioned reappear in future chapters. This is purposefully designed to show you these items from a different perspective. When this happens the text reinforces the importance of these elements in the concepts that are being discussed in each chapter.

Below you will see the breakdown of each segment of the chapters you will encounter.

- **Chapter goals.** The introduction to each chapter lists the goals of the chapter and what you should expect to learn. Review the chapter introduction both at the start of the chapter and after you have read it thoroughly. If, when rereading the chapter goals, you are not sure you have a good understanding of them, you need to review the chapter material prior to moving on.

- **Key terms.** Each chapter contains a number of key terms that aid you in understanding and making use of the concepts of the chapter. These key terms will build on one another as you progress through the book so that you expand your knowledge in a systematic and useful way.

- **Chapter concepts.** These are the basic concepts or steps that you will discover are essential to attain the goals established for each chapter. They are presented in the building-block method, which allows you to broaden your base of information and knowledge continuously. At the same time, you will develop a solid understanding of what makes real estate “tick,” how you can reduce risk in investing, and how you can determine which of the opportunities you discover will best help you attain your goals.

- **Examples, case studies, exercises, and forms.** Many chapters contain these added elements to enhance your understanding of key concepts, direct your attention to potential problem areas for real estate investors, and allow you to practice the concepts you are learning.

## **The Real Estate Investor’s VIP List**

As you read, and especially in [Chapter 15](#), you can begin to compile your own Real Estate Investor’s VIP List of important sources of the information on your local real estate market that you will need to be a successful investor. This list, which follows [Chapter 21](#), should be filled out faithfully. When you finish the book, there will still be some blank areas, which you can complete at your leisure. The investor who has a fully completed list will have the edge over any other potential investor in the same community. This list is to be *used*. It will help you build personal confidence in the real estate arena. Its success depends on you to obtain the data called for. Do not skip this important part of the book—your future may depend on it.

As you move into Part 1 of this book, you will be building your real estate investment foundation while at the same time enhancing your confidence in your ability to make the move to become a property owner. You will discover the simple elements of finance as they are applied to real estate. Best of all, you will discover how easy it is to learn so much about a neighborhood so quickly. This knowledge will provide you with “insider’s information” that in reality has been there for your picking all the while. Take advantage of that knowledge, and this book.

## **PART 1**

# **HOW TO BEGIN YOUR SUCCESSFUL REAL ESTATE INVESTMENT CAREER**

## CHAPTER 1

# A SOUND INVESTMENT STRATEGY BEGINS WITH A GOAL-ORIENTED PLAN

This chapter is the foundation for all that follows, and its first purpose is to help you establish a positive outlook on the task of real estate investing. It will do this by illustrating that there are seven important personal characteristics that, depending on how you direct them, will shape whatever you do in life.

The seven personal characteristics are determination, attitude, sound goals, a plan to attain those goals, patience, due diligence, and perseverance. Each of these seven is easily attained. All you have to do is to apply your best efforts toward each of these tasks.

This chapter also tackles the problem of **risk** in real estate investing and shows the keys to reducing that element in the investment portfolio. The ultimate aim of this chapter is to show the reader the importance of establishing sound and meaningful goals and how they are applied to an investment plan.

This chapter and those that follow are directed to the **goal-oriented investor**. The problem is that most novice investors are not properly and effectively goal oriented. The consequence of this is that most investors have difficulty staying focused on their task and achieving success. Good goals are essential for sustained success in any venture, so real estate investing should not be an exception. The connection between a firm focus (a goal clearly in sight) and a winning attitude is very important, because it will shape your self-confidence and provide a road map for the future. The result will enable you to overcome needless frustration and to dispel the idea of fruitless effort.

Take everything one step at a time.

## KEY TERMS

In this section, the following terms related to establishing a goal-oriented plan are defined and explained:

- Success-oriented attitude
- Apparent opportunity
- Attainable opportunity
- Positive failure alignment
- Successful elasticity
- Comfort zone
- A goal-oriented plan

Knowing and understanding these terms and issues related to them will help you to learn and apply the concepts presented in this and future chapters.

### **Success-Oriented Attitude**

The *little engine that could* is the basis of this concept. Knowing that you can succeed is the driving force that results in effective and worthwhile effort. When virtually every task begun is completed, strong **self-confidence** is generated. This self-confidence is the inner reflection of the right kind of success-oriented attitude. In person-to-person contact, this self-confidence must be so positively charged within you that it shows in everything about you. In sports, this kind of self-confidence is what gives one player the edge over another. In essence, the adversary is “psyched out.” The positive attitude keeps the winner charged with the vision of success right from the beginning. It pays off in sports and also in real estate investing.

In the business world, this simple element is often the only thing that separates a closed contract, a signed order, or a profitable venture from failure. It is a natural course of events. People *want* to do business with people who exude success and who have the confidence to prove it.

The idea is to look and think the part. It takes both aspects to work. Just thinking success is not enough. You must look the part as well.

- **Know that you can and will learn the tools needed to be a success in real estate investing.** Just as a novice pilot learns to fly, you will learn the keys and the insider techniques in real estate investing and you will be a success—if you want it to happen.

- **Don’t rush anything.** Take this book step-by-step and become comfortable with the concepts and your ability to apply them as they relate to your goals. Building your own self-confidence is an essential part to building a success-oriented attitude.

### **Apparent Opportunity**

The moment you begin to learn anything new you will have the urge to grasp what jumps out at you as an **apparent opportunity**. It is like the budding psychiatrist who first learns of a mental disorder and begins to see it in everyone. Learning about real estate investing is *learning how to take advantage of opportunities that may have been around all the time*; the only difference is that you did not have the ability to see them, so they went unnoticed. Apparent opportunities may be both *dangerous* and *worthy*.

Novice investors often jump at a deal that looks good for the wrong reason. For example, dealing with highly motivated sellers is a very good source for making excellent deals. However, to acquire property from a seller simply because he or she will sell it for nothing down may not be an opportunity at all because that property may not serve to move you closer to your desired goals.

Every purchase or acquisition should be part of an investment plan. If the property can fit into that plan and can be purchased or acquired in such a way that the obligation does not overburden you or sidetrack you from your goals, then you have