

Chapter 17: The “Hybrid” Action Plan

"Reduce your plan to writing... The moment you complete this, you will have definitely given concrete form to the intangible desire."

- Napoleon Hill

Hybrid Overview

Use the hybrid system that combines the rent-to-own lease option program and the buy/hold option to profit from the strengths of each method. You can earn more than a million dollars in less than a decade by following this strategy of purchasing 1-3 homes per year.

The hybrid system gives you the opportunity to build massive wealth slowly but steadily. You will recover your mortgage payments, insurance, and taxes as your tenant buyer pays you rent. You also have an incredible long-term wealth opportunity. You will probably raise the rent by 2-3% every year. Your monthly payments will stay the same while your cash flow increases.

At the same time, you will apply the lease option, which usually involves residential properties. Apart from the non-refundable option and monthly rent, the tenant buyer will also pay an option credit that partially goes towards the agreed purchase price.

Step 1: Research Investigation

Start by familiarizing yourself with your market. Set aside 3-5 hours for surveying your surroundings so you get to know the nearby areas. In general, you should find sufficient investment potential that can give you wealth within 30-60 minutes of your home. Do not assume that you are already familiar with the area.

Take a notepad to jot down some important points and a detailed local map. We will show you the things you need to look out for during your research investigation and where to look for them.

Once you find a location with the required factors, jot it down and mark its location on the map. You will view the target subdivisions in the same way farmers view their fields. These are the areas where you will cultivate and harvest your initial real estate investments.

Focus less on the size of the subdivision and more on the number of the basic starter homes in it. Try to look for as many of such homes as possible within the first week, by the end of which you should have a good list of potential neighbourhoods.

This process is relatively easy.

Step 2: Drive the Neighbourhood

In the second week, take time to learn more about your list of neighbourhoods that you had compiled. It does not matter which one you start with, as you will work through them all.

Drive through the selected neighbourhood and check how the lawns are kept and properties maintained. Look out for vacant houses, “For Sale” signs, and signs of children. Observe the condition and age of vehicles parked in the streets and driveways. Try to look for individuals with whom you can strike up conversations.

Try to determine whether you would really like to invest in the neighbourhood. There are chances the residents own their homes when you notice that the lawns are well-kept and the homes are properly maintained. Such things as swing sets, toys, and bicycles will indicate that the families have children.

You will see a few “For Sale” signs in a stable neighbourhood. Fewer vacant homes indicate a desirable neighbourhood. If you notice the vehicles are clean and well-maintained, you will know that the residents are proud of their personal property and possessions.

You will get a number of benefits when you invest in such areas. First, you will find it relatively easy to finance and rent the properties. The neighbours will also let you know if the tenants do not take good care of your property or are not well-behaved.

If you are starting to invest in real estate, focus on properties in need of some attention in “starter” neighbourhoods scattered around desirable communities. Look for owners who have neglected their properties in desirable areas.

On the other hand, you should watch out against too many vacant homes and lots of “For Sale” signs

and poorly maintained houses where the yards are either barren or overgrown. Keep away from neighbourhoods with unlicensed vehicles. You will find it very difficult to attract good tenants in such locations, which usually decline in value.

Keep on Exploring Your Farm

Talk to property managers or get on the MLS. If you have an investment realtor, let them search all internet listings for you. The investment realtor should preferably have a website where you can conduct your own searches depending on specific properties and neighbourhoods.

Such resources will enable you to start searching for neighbourhoods faster. You will not get sufficient details from newspaper ads. Learn to filter them and visually check suitable properties.

Take note of any property in a good neighbourhood that does not fit the surrounding. Investigate the property further whether it is available for sale or not. Ask the people you meet whether they live in that neighbourhood and let them know of your interest in finding a property to buy in the area. Ask them whether they are aware of any property for sale. Ask the things they like best about the neighbourhood and the things they do not like about it. Ask about any problems. Ask whether most of the neighbours own their homes and the number of rental properties in the neighbourhood.

Give these people your business cards and let them know the types of properties you invest in. Ensure you leave them with a good first impression.

When you know how to talk with the neighbours, you can find a wealth of information. You will be able to get valuable details from them as they also try to know you better. For example, you can find about a neighbour who is moving because of a job loss, which gives you a potential candidate for a great bargain.

Step 3: Start Inspecting Ideal Properties

You need to do some homework as you prepare to inspect the homes you are interested in. Look for a property manager. We will show you simple ways of locating the property managers operating in the neighbourhoods.

Look for two property managers who are ready to check some of the homes with you. Let them know you intend to buy several properties in the neighbourhood and you are looking for a good property manager who can manage the properties on your behalf.

Take the two property managers on the same home tour but at different times and then compare the information they give you. Repeat the process if you find significant difference between the rates from the property managers.

Your data should be reliable for you to make good offers. Let the property managers know you are interested in rental rates for houses in good condition. This will help you to make offers that will enable you to get good return after purchasing and fixing the properties.

Ask the property managers for two references, who should preferably be owners of properties they are managing at present. Try to find out whether they know of any other suitable properties for good investments.

Try to find out whether any of the owners whose properties they manage would like to sell. Ask them the number of properties they manage in the area and request to be

shown some of them. If this is possible, note their appearance and condition in general.

We will show you how to ask questions that will help you to determine the way the property owners handle their managers and whether the managers are open with them. Try to evaluate the property managers when you take them for a ride. However, remember your greatest concern is getting a feel of the rental rates in the targeted neighbourhoods.

Check at least three properties in this step, at the end of which you should have a good knowledge of the targeted neighbourhood, have a list of homes for sale, and a good idea of the expected rent.

Step 4: Detailed Inspection of FSBOs

Review the notes you had taken and choose three “For Sale by Owners” you believe have the greatest potential. Call the owners from the preceding week to schedule appointments to inspect the homes. Explain that you are working on weekdays and would like to make the appointments on the weekend.

Set aside one hour to inspect each of the properties that should preferably be close to each other so that you can maximize your time.

Download a sample inspection form and review the appendix before you go to inspect the properties. Have a copy that you can use to guide you so that you make a detailed inspection fast.

Give each item a rating of poor, average, or excellent. Estimate the expected cost of repair of all the items rated as poor. You may call relevant vendors to help you make a proper estimate of expensive items. Use your best judgement when estimating smaller items, as the impact will be little even if you make a wrong estimate. You will make more accurate estimates as you gain experience.

Step 5: Review Values and Structure Your First Deal

This step is very important because you will present your offers for the purchase of the properties you had inspected.

In order to determine the respective values of the properties, you will need to consider the information you gathered, the rental rates you got from the property managers, and the estimated cost of repairs.

Forget about the appraisals that estimate market value. Do not expect to pay market value for the properties and rent them for market value if you want to succeed in your business. You will not get any margin of profit unless you receive a discount or a margin with a rent-to-own/lease option.

You can determine the discount or wholesale value of a property in good condition by calculating the NOI it will generate. Then deduct the expected cost of repairs necessary for restoring it to a good condition.

Do not get discouraged if your offers are rejected. What is important is the fact that whichever offer is accepted will give you profit. Bear in mind the way the public generally views real estate investors will not favour you. Bankers, realtors, homeowners, and anyone with interest in the real estate industry will establish values through the use of appraisals. Making wholesale offers or discounts is not the usual step in real estate.

Although making wholesale offers on houses is the same as doing so on cars, people are more used to receiving such offers on cars and not houses.

Ensure the offer you make helps you to buy the house depending on the calculated NOI. Calculate the amount you are ready to pay for the three properties.

Present the lowest price possible if you want to pay cash. Alternatively, you can offer a higher price and then request for favourable terms. Whichever amount you settle for, ensure the property will produce the expected return in cash.

Make your calculations and determine your offer then put it in writing. We will show you how to structure a good offer and give you a property analyzer to help you out. You can customize the analyzer by adding dates and names among other things.

Present your written offers to the sellers. You can either contact the FSBOs on your own or through your investment realtor and let them know of your interest in buying the properties.

Explain your position as an investor before you present your offer if you get in touch with them yourself. Analyze the property carefully so that you can determine what you are ready to pay. Include a coversheet with the offer.

It is important that you explain you are an investor and must structure an offer that will allow you to receive a return on the investment you are making. Assume the fact they could receive more from their properties if they wait 3-6 months longer and get people who are interested in living in the homes. This means that you should find sellers who cannot afford to wait that long.

Let the sellers know they do not have to decide immediately when you present the offers. Suggest they go through the offers overnight.

The amount you are offering is likely to be less than they expect, considering you are presenting a discount offer. This is why it is important they study the offer closely.

You will have accomplished your part after presenting your offers. If even one is accepted, great. If none goes through, do not give up; you will have made your first step in the industry. You will have moved from ideas to action.

The hardest step you will face is making your first offer. You may not only be nervous but also scared. This is normal reaction and you will get more confident with time.

Step 6: Inspecting Properties Listed for Sale with Realtors

The difference between this step and the fourth is the fact you will focus on inspecting properties that are listed for sale with realtors instead of For Sale by Owners. This means the realtors will be responsible for showing you the properties instead of their owners. You will find both negative and positive attributes when you visit the properties.

Look for an investment realtor who will double up as a buyer's agent so they will be responsible for negotiating the best deal. Investment realtors usually do their best for the buyers and encourage and guide you in crafting and presenting offers.

An investment realtor will help you to complete deals faster so they also receive their payments faster. Dealing with an investment realtor will therefore help your business.

Follow the procedures you would with the FSBOs when you are inspecting the homes with the investment realtor. Ensure you check everything out with the help of a checklist. Do not let the realtor or owner rush you but keep with your own pace.

Look for any items that need to be worked on and estimate their repair costs. You will be relatively slower at first but will learn to inspect homes faster with time and will inspect more properties in a week.

You should inspect several properties so you can present up to three offers to purchase. This is what will give you a better chance of getting discounts.

Step 7: Make Offers on the Properties Inspected

This step involves making offers on the properties you inspected in the previous step.

One of the best methods of finding sellers prepared to sell their properties at a discount is by presenting written offers. People with personal and embarrassing problems will accept your offer without going into details.

Make
your
calculations,
structure

your offers accordingly, and then put them in writing.

Write three or four purchase contracts after discussing with your realtor. If any offer is accepted, you can let the realtor proceed with them. Always ask what the sellers want, as some will let you stay while others will let your realtor stay. Still some will only let their realtor be present.

Alternatively, you can use a letter of intent instead of a contract form when you present wholesale or discount offers. The letter of intent tells about your interest in making a purchase, the amount you are prepared to pay, the way you expect to make the payment, as well as other important terms and conditions.

Address the letter to the seller and let your realtor present it. We will give you a sample letter of intent you can customize to suit your circumstances.

Ensure the letters have your name, address, phone number, and signature. Such letters can help you to hasten the process of presenting your offers. They give you the



MORE OFFERS = BETTER CHANCES OF SUCCESS



opportunity to reach an agreement in principle while you can still negotiate to improve the deal.

Step 8: Business Cards

One of the most cost effective methods of letting people know about your real estate business is the use of business cards. Remember that what makes you a real estate investor is not really the purchase of your first property but the decision to invest. If you have not yet bought your first property, it simply means that you have not yet found the right property.

Visit your targeted locations once more and give business cards to all the people you meet. Ask these people to call you when they hear about any property in the neighbourhood on sale.

You can leave your card in the mailbox or under the door mat if you don't find anyone at home. Leave the card together with a note explaining your intention politely.

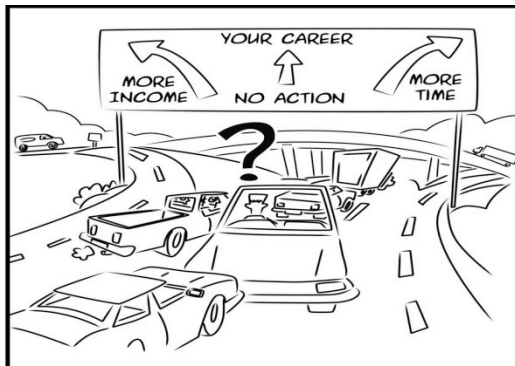
You will have a better chance of finding properties before they even get listed when you give out lots of business cards in the targeted location. You will have a better chance of finding sellers who really need to sell and will accept a wholesale offer. There are many unforeseen circumstances that can turn people into flexible sellers very fast.

You can be surprised to find an inflexible seller turning flexible suddenly. The more people who have your business cards, the better chance you have of finding such sellers ahead of other investors.

Look out for new “For Sale” signs as you pass out your business cards while driving through the area. Also look out for properties that remain for sale for extended periods. These will give you other opportunities of getting flexible sellers.

Fast Start to the Hybrid Action Plan

- ✓ Carry out your research investigation
- ✓ Drive around the neighbourhood
- ✓ Start inspecting ideal properties
- ✓ Inspect the ‘For Sale by Owners’
- ✓ Review their values and structure your first deal
- ✓ Inspect properties listed for sale with realtors
- ✓ Make offers on the properties listed for sale with realtors
- ✓ Hand out as many business cards as possible



DECIDE - THEN TAKE ACTION!