Real Estate Investment Network
Authentic Canadian Real Estate System

Name: ____

Date: ____

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REIN Code of Ethics

The following is the code of ethics and guidelines under which REIN Members are to conduct themselves.

These guidelines are designed for two major reasons:

- to ensure the Members are investing in Real Estate in an ethical and legal manner as per the REIN philosophy
- to ensure that others, within the group as well as outside the group, are treated ethically and with respect by Members

Members who break these codes and guidelines may be asked to leave the Network immediately.

Code of Ethics

- REIN Members enter all agreements with the full intention of living by the terms of the agreement.
- REIN Members must reveal all required or relevant aspects of their real estate transactions to all respective parties, including but not limited to, realtors, bankers, buyers and partners.
- REIN Members neither enter, nor ask another person to enter, into any agreement that is in contravention of any known law, statute or regulation. This includes, but is not limited to, providing inaccurate or omitting information.
- REIN Members will operate in compliance with all federal and provincial privacy laws.
- REIN Members neither enter, nor counsel another person to enter, into inappropriate transactions.
- REIN Members who are also members of a Real Estate industry professional association (such as real estate agent/broker, mortgage agent/broker) who come under investigation by their professional association, will have their REIN Membership suspended until the matter is resolved.
- REIN Members take responsibility for our own actions. We complete diligence on all properties, parties and deal structures before entering into any contractual agreements.
- REIN Members play a leadership role in the community. We treat others, both in and out of REIN, with respect and integrity.

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REIN REAL ESTATE INVESTMENT NETWORK

Authentic Canadian Real Estate

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Step 1

Your Belize and ETHOS

Your Belize

What's your true intention?

The first step in being a successful real estate investor is to focus on creating a clear vision of exactly what real estate is going to provide you – you'll be driven to achieving this dream and avoiding unnecessary distractions along the way.

A truly compelling intention is the foundation of your real estate success

With a compelling intention in mind, you'll be able to choose a clear pathway; without it, you'll be wandering in the dark. Your vision, if compelling enough, will quickly become the first thing you think of when you get up in the morning and the last thing you picture before you go to sleep. It will keep you going when the inevitable bumps in the road appear; it will drive you forward even if others in your life are questioning what you're doing. It will be a lighthouse leading you to safety through every storm and it will allow you to be a champion in your real estate practice.

On a basic level, it is every human being's intention to live a happy, joyful life. That could be your intention or you could take it one step further. You could, for example, get to a more specific intention by asking yourself: If you could make any impact on people that come in contact with you, what would you want that to be? What would leave you completely satisfied and fulfilled? How does someone need to be left—with what experience or impact?

The original story of Belize:

Armand's story and vision
(page 23, Real *Estate Investing in Canada* book)

Knowing your intention will give you purpose and make you feel alive. I can say, without hesitation, that the majority of our ultra-successful real estate clients have a compelling intention.

Take the remarkable story of Armand from Vancouver, for instance, and the story behind what REIN calls Your Personal Belize. His underlying intention was to have a major life-style change that was funded by his real estate portfolio. His intention was to live his life surrounded by things he was passionate about: travel, tropical weather and motorcycles. From his clear and passionate intention he created and achieved this fantastic outcome:

As told by Don R. Campbell: Armand has been a client and friend of mine for many years. He's a music fanatic and motorcycle enthusiast who loves to travel even more than I do. He enjoys having fun every day of his life; when he walks in the room everyone can immediately see he is on-fire. However, the important piece to this equation is that he brought this level of enthusiasm with him even when he only had $578 to his name. Every day is an exciting adventure for him.

Even though he was a REIN Member, he didn't speak much about real estate; he was always talking with passion about his hobbies and exploits. One day, at a REIN workshop, Armand took me aside with a curious look in his eye, something I had never seen before. It was at this point, as we stood in the corner of the room, that he looked me straight in the eye and said, "Thank you, I did it. I've achieved my own Personal Belize!"

Obviously, I had a confused look on my face because, after he stopped laughing, he explained. In a previous workshop, I had explained how powerful it is to have a clear intention that develops into a compelling vision for life, something a strategic investor can look at every day to remind them of why they are investing in real estate. The night he heard me talk about this, he raced home and developed a vision so clear and so real that it became his underlying source of energy and enthusiasm for the next three years.

During those three years, all his real estate decisions were based on whether the investment got him closer to his vision, or farther away. He only acted on the opportunities that moved him closer; his vision made all of his decisions easy.

So, there we were, just over three years later, and he was standing in the corner of the REIN workshop room beaming with a grin from ear to ear stating, "I did it!" He handed me his Personal Belize statement. It was one of the clearest and most focused vision statements I had ever read. Here's what it said:

> I did it! I have now used the ACRE system to fulfill one of my lifelong dreams. I am now sitting in my white beachfront house in Belize with the ocean breeze blowing lightly through the window. I am here with my wife, Natalie, who has never looked happier in her life. I get up in the morning to walk down the white sand beach to our Harley-Davidson rental business, where I have five brand-new Harleys waiting to be rented to tourists. Every day I go to the local market to smell the amazing smells of the Caribbean, taste the exotic tastes, hear the rhythm from the local bands, and meet my new Belizian friends. I run my business for fun, not just for profit, because my real estate portfolio has set me up financially for life. Friends from across Canada visit throughout the year, so we are always surrounded by happy, excited and positive people. I have many ideas for the charities I volunteer for and am making a difference in any way I can, using my enthusiasm and knowledge.

Armand's smile was even wider now, which I didn't think was possible. He said, "For the last 10 years, I had tried everything to get rich, but it was only when I listened to you and stepped out of my comfort zone and created this vision that things started to really happen for me." Before he created this vision, and set his full intention on making it become real, he said it felt like he was running at full speed, but wasn't too sure where he was running to. Then, as soon as he completed the vision and hung it on his wall to see every morning, the finish line became inherently clear and very exciting (page 24-25 of the *Real Estate Investing in Canada* book).

Why this matters to you – what is your compelling reason?

Armand's story is a lesson in how you must change your actions to change your results. As many have before him, he had been running at full speed, chasing the almighty dollar, only to find that even with his best efforts, he wasn't really any closer to the finish line. He decided that he'd had enough of this race, and so he changed his tactics. He clearly defined his next goal – not based on money but based on passion and lifestyle. It was so vivid that he could hear the surf, smell the market, and see the colours every day he looked at it. That's what makes a vision real … in fact, you'll note that he doesn't even mention money.

Once Armand's vision was clear, his direction was set. It was simple for him to stay focused and use the ACRE system to create a roadmap that would take him directly there. By using the same energy as before, he could focus on getting to a specific destination: his Personal Belize (page 26 of Real Estate Investing in Canada book).

Invariably, when we speak with past ACRE graduates who have achieved the most - each one of them has created their own Personal Belize. The grads who end up with just mediocre, or below par, results invariably have not completed this exercise. These results are consistent over the last 25+ years. Change your results by doing something out of the ordinary.

Belize Exercise - How to Develop Your Own Personal Belize and Set Your Intention in Stone

This exercise will allow you to focus on your goals, values, and dreams, and get you thinking in a way that excites and motivates you, which will ultimately answer the question, what will real estate give me? Real estate will provide you whatever you seek, if you clearly articulate your goal (s).

By spending some serious time on this foundational and fun process, the rest of the system, and your life, will feel easy. Your homework is to get your Personal Belize started, knowing you'll be adjusting and improving it for many years to come. Your vision will be a constant work in progress. As you grow, so will your vision.

To get started, work with the questions. There are no right or wrong answers. Be honest with yourself. You don't have to share this with anyone if you don't want to. Write it in the present tense as if you have already achieved your goals and are living the good life. Make this as real as you possibly can; look clearly within yourself to see what you really desire in life.

Answer these questions as if it was five years in the future and everything has come together for you:

1. Where exactly do you live? Describe the house, the town, the colours, the flora and fauna. Describe the smells you experience and the sounds you hear.

   ____
   ____
   ____
   ____

2. With whom do you spend most of your time? What are their states of mind? How much you time do you get every day?

3. What hobby or business are you spending most of your time on? How is this making you happy?

4. Do you travel? If so, where do you go? Describe as in #1 above.

5. How is your health? What is your weight? How often do you exercise? What type of meals are you eating?

6. What type of music fills your life? What types of art and books are you enjoying?

7. What experiences are you having?

8. Who are you helping and how are you helping them? Where are you making a difference?

9. How much cash flow is coming in every month from passive investments?

10. How much net worth have you attained?

Now, use your answers to create a fulsome vision so compelling you can't help but feel excited!

Lastly, on a piece of cardboard or using an online vision board app, create a collage by pasting pictures cut from magazines, or the internet, of this complete vision you created from your written answers. Put this vision board somewhere you can view it regularly and allow it to energize and refocus you, whenever you need a boost of inspiration.

Your Belize

Submit your vision to vision@reincanada.com

Today is __________________, 20______ (5 years from today) and *I Did It!* I am now:

5 Key Questions to Get Started

Q1. What is your ETHOS this year? (Your aim, purpose or intent)

INSIGHT! ETHOS serves as a powerful acronym to help find your theme for your focus this year. The E is for Eliminate something, T is for Transcendence (to leave something behind), H is for Happiness (to grow happier in life), O is for Opportunity (to grow richer financially) and S is to end Suffering in someone's life financially (parent, loved one or cause).

____

____

Q2. Why does it matter?

INSIGHT! Get to the heart and soul of why this matters most to you.

____

____

Q3. Who is counting on you to make this happen?

INSIGHT! This is about discovering the relational equity vested in your ETHOS.

1. ____________ 2. ____________ 3. ____________

Q4. What do you need to get what you want <u>this</u> year?

1. ____________ 2. ____________ 3. ____________

Q5. If only a small part of what you want can be achieved this year, what part, *if realized*, would leave you pleased?

____

____

Step 2

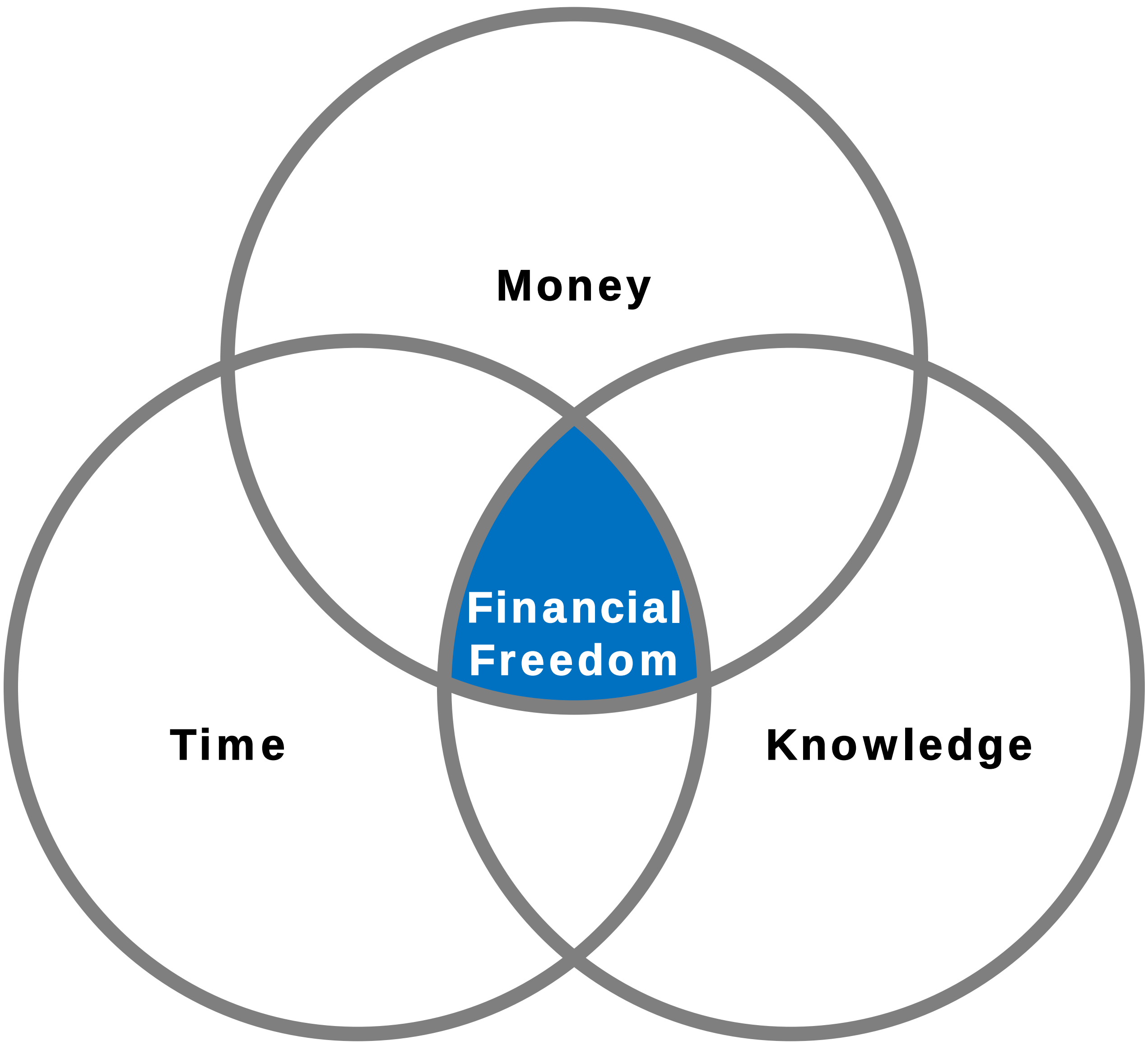
Decision Maker:

Heart and Soul of ACRE

Decision Maker

The three ingredients to Financial Freedom are time, money, and knowledge.

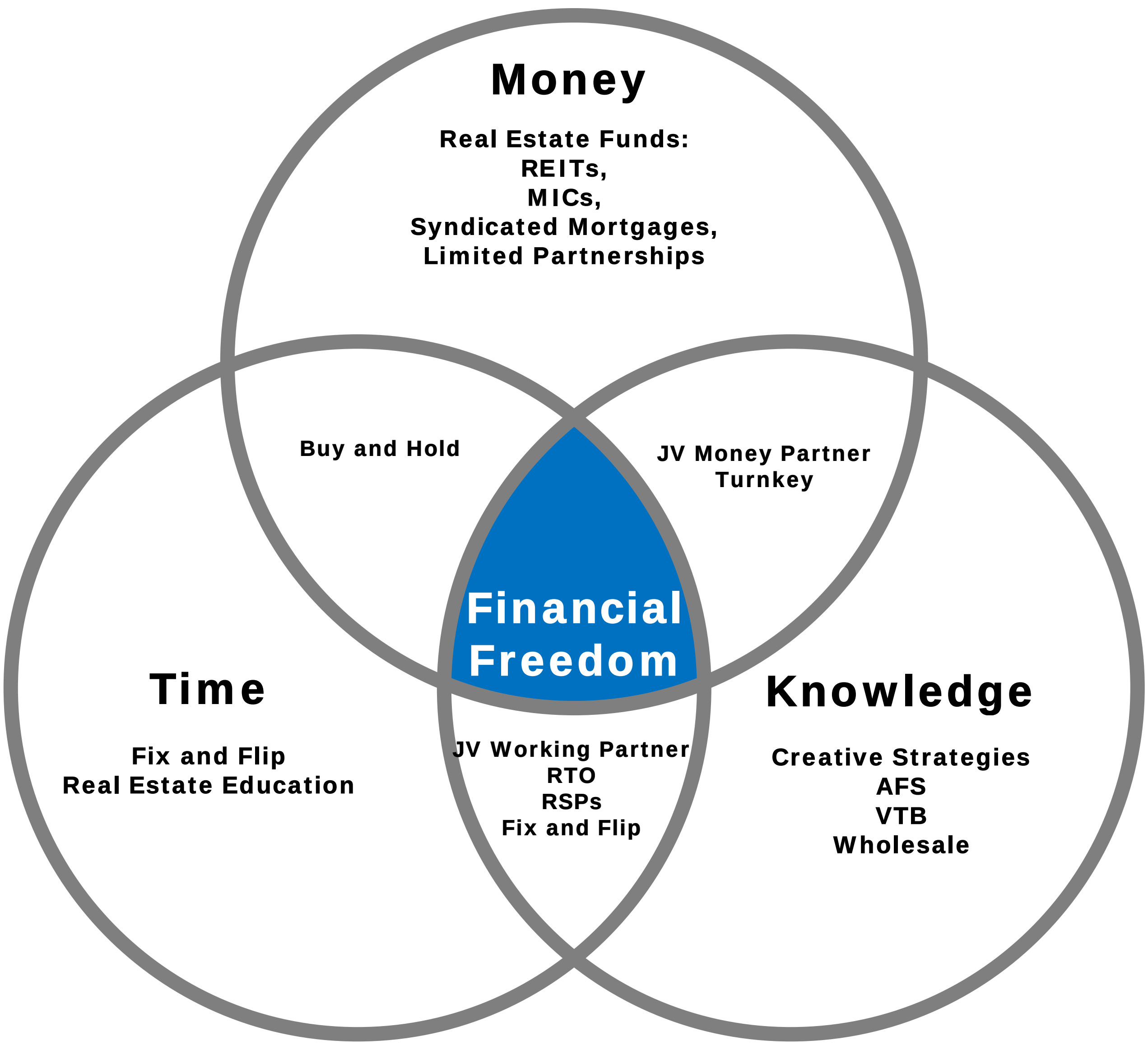
Which do you have more of to devote to your real estate investing journey, right now?



Which Investor are You?

(page 92 in the *Real Estate Investing in Canada* book)

What tactics are best given what ingredients you have most to contribute to real estate investing?



Step

3

Business of Real Estate

The Business of Investing in Real Estate

Over the past years, when real estate investors hear Don R. Campbell make the statement, "Treat your real estate investing like a business" the questions that follow are: "What does that mean?"; "How do I do that?"; and, "Why is that important?"

There are many ways to do the same thing; however, the following tips and insights will serve you to build a successful and profitable real estate portfolio.

Remember, taking the first steps towards treating your real estate investing like a business often begins with a simple shift in your mindset.

> *"When you change the way you look at things, the things you look at change."*
> *- Dr. Wayne Dyer*

In this series I'll outline several proven steps and considerations for you to take to build a framework of success for your real estate investing.

Definition of an Investor: An investor is an individual who commits money to investment products, which may include real estate, with the expectation of financial gain.

Notice, in this definition, an investor only commits money. Ask yourself: are you really just a real estate investor? Are you only investing your money in real estate, or are you planning on investing much more than money, such as your time, energy, efforts, and relationship resources?

If your answer is much more, then read on!

1. Gain Perspective

   Take a moment to look deeper into what's behind the curtain. Even with a single buy and hold investment property, you can clearly see it is a small business. Need perspective? Consider the following facts:

   - You have purchased a property, which is your asset
   - A lender holds a mortgage on the property which you have an obligation to pay
   - You are selling the use of the property space for a fee called rental income/revenue
   - You have a client or clients, which are your tenants
   - You have necessary expenses for the property, including such things as maintenance, advertising, renovations, appliance repairs, property management, etc.

- You have very real and necessary business operating expenses such as your phones, vehicle, office supplies, a bookkeeper, etc.

- The Canada Revenue Agency (CRA) wants to know the details of this asset/business. You are required to submit annual year-end information for tax purposes

- Your intention of investing in the property is to create financial gain through positive cash flow, and equity appreciation. This is called a profit

When you expand on this idea by adding more revenue properties, or even other real estate investment strategies, it quickly becomes apparent, this is definitely a business!

2. Begin by Developing a Mindset for your Business Success

Your beliefs drive your decisions,
Your decisions drive your behaviours,
Your behaviours become your practices,
Your practices create your success!

Your Beliefs Drive Your Decisions
You are not just a real estate investor, you are in the business of investing in real estate. In business, YOU are responsible and accountable for:

- The decisions you make (or don't make)

- The actions you take (or don't take)

- Creating profitable results

Your Decisions Drive Your Behaviors
To treat your real estate investing like a business, begin by clearly deciding you are investing in, ... not speculating in, real estate. To build a profitable portfolio and business of investing in real estate, it is essential that you understand and apply the supporting economic fundamentals. These fundamentals impact the real estate market and affect your decision-making process.

Your Behaviours Become Your Practices - Take the time it takes so it takes less time
The process for building your business is just that - a process, and it takes time. It means formulating a plan to achieve your intended outcome.

As you take action to purchase your first, or your next property, you'll need to add to your business's foundation to support you in either taking the next steps, or providing support for the steps you have taken.

3. Avoid Investing in Real Estate Chaos

Build your foundation to support where your business is going, not where your business is at today.

Whether your goal is to own three doors, seventeen doors or three hundred doors, it is necessary to build a foundation to support your vision. Follow the proven systems and steps for creating your success. The following are some key considerations.

Begin With The End In Mind!
Create a picture (vision) in your mind for your business. By knowing where you're going you can begin to define and build the foundation to support your business. You will need your foundation to provide stability and longevity, be sustainable, and have the capacity to support your vision.

Start here, by asking and answering these very key questions:

- What is your vision for your business of investing in real estate?
- What is your plan to achieve that vision?
- Will you be purchasing buy and hold positive cash flow properties? Maybe you want to purchase multi-family properties, or renovate and flip? Could your strategy be buying foreclosures? There are many strategies; what is yours?
- How many properties do you intend to purchase?
- Based on the economic fundamentals that you will be considering, what province, city, or even neighborhood will you invest in?
- Where is the money coming from?

4. Build Your Team - Leverage the ROI of your time by leveraging the strengths of others

The success of your business will greatly depend on the quality of the team of professionals you bring together to support you. There are several professionals you will need to find and begin to work with, and each MUST have a background in handling the needs of investment real estate. Inexperienced oversights, misinformation, and setup errors made early on (or anytime) can prove to be very costly down the road, causing unnecessary chaos. Always get at least three referrals.

- Mortgage broker or banker
  Start by getting referrals and finding a mortgage broker who is experienced in finding mortgage financing for you as a real estate investor. This is not a job for just any mortgage broker. Only work with a qualified and dependable mortgage brokers who understand the needs of real estate investors. If they are investors themselves it's even better as they understand the long-term impact of making the right decisions for financing early on
- Lawyer
  An experienced real estate lawyer can save you thousands of dollars in costs. You must have one to buy or sell your real estate. Find a good lawyer by getting referrals from veteran investors

- Accountant
  Guidance from a veteran real estate accountant from the beginning will save you time and money down the road. Share your vision and let him or her help you set up your business of investing in real estate the right way

You will likely have a few questions over the course of the year so having an accountant on your team makes sense. And, if you have taken action, you will need one for your year-end. Remember to budget for your accountant to complete a year-end for you, taking into account the possible tax implications associated with having a profitable business.

Entering into joint venture agreements adds another dimension to your bookkeeping and accounting needs.

Build Your Team ... Don't Hire Specialists, Invest In Them

Perhaps not in the beginning, but at some point in time, you will need the services of some, or all, of the following specialists. Pro-actively networking to meet specialists on the list below and beginning to create rapport early on BEFORE you need them means you'll be several steps ahead when the time inevitably comes. Building a team is done by creating strong relationships with people and businesses you can trust and rely on to do the right thing. Investing in specialists is not only about the financial costs; investing time in getting to know people, supporting their success, and trading information, will pay huge dividends down the road

- Investor focused REALTOR®
- Property Manager
- Bookkeeper
- Handyman
- Business Coach
- Property Appraiser
- Property Inspection Company

5. Decide…. What's Important Now (W.I.N.)

Avoid the distractions that take you away from your plan and away from what supports you in achieving your vision or goals. By defining and staying focused on your plan, your actions will be focused on W.I.N. (what's important now)!

6. Manage Your Cash... Always know where your cash is... and where your cash is going.

Consider all the costs of buying real estate. During your ACRE program weekend you will have learned about the money it takes and the real math behind purchasing cash flowing revenue property which includes, but is not limited to:

- the down payment for the property purchase
- cash for a reserve fund
- the legal costs
- possible renovations
- pre move-in maintenance
- marketing costs to find great tenants

- property management
- miscellaneous closing costs

Be aware of the indirect costs related to being in the business of investing in real estate. For most people, this list of costs is not a significant financial consideration; it may even be absorbed in an existing business. For others, it will be a consideration.

- Phone - It's likely you already have a cell phone and or land line, but does your budget allow for an increase in usage?

- Vehicle costs - Chances are good that you will be driving more to find and look at the properties. Consider the increase in fuel costs and wear and tear on your vehicle

- Office supplies - From printer toner to a new filing cabinet and file folders, how much is hard to say, but there is a good chance that you will spend more than you are now

- Computer hardware - Computers, printers, scanners ... what will you need?

- Computer software - From the fundamental need of Word and Excel to Publisher or accounting software, there may be costs for you to consider

- Accounting - At some point, you will likely need an accountant to provide guidance for how best to set up your books for your specific needs. You will need an accountant to complete the year-end functions

- Bookkeeping - Unless you're planning a career in bookkeeping, this is a task best completed by an experienced bookkeeper. The real cost for this role is actually minimal when compared against the hidden costs of the missed opportunities, frustration, inaccurate files, less time with your family, and more, when you do it yourself
- Remember, you build your foundation for where your business is going, not where it is today. Learning to work with a bookkeeper to create systems, policies, and procedures is significantly easier when you just have a couple of doors. As you expand your portfolio, you and your bookkeeper grow together. Transitioning from doing your own books to having a bookkeeper after the fact is stressful and a tremendous amount of work ... and ultimately you will wonder why you just didn't do it sooner!
- Time - Yes, there is definitely a cost to your time. It is why staying focused, having a plan, and avoiding the distractions which stop you from taking action are hugely important considerations. Use your time to take action, which moves you forward. Consider the ROI of what you spend time doing

- Attracting Joint Venture Partners - Putting your fantastic JV presentation together in a nice binder with glossy paper and great color, buying the odd lunch, travelling to meet a prospective JV partner, calling them on your cell phone, and spending time building rapport and a relationship ... yes, there is a cost to this, too

- Bank Charges - Yes, you will incur additional bank charges. Work with the bank representative to choose the right account for your business

7. Take Care of the Administration ... It's Business, not Personal

Do NOT mix your personal bank account with your real estate investment account.

Begin by opening a separate bank account for each real estate portfolio. That means, even if you are buying your first investment property, open a separate bank account. All costs associated with that property (or even several properties) are drawn from this real estate account. All revenue will be deposited into this account. Portfolios can be defined and separated for different reasons. For starters, let's assume you have a portfolio that is in just your name or your company's name.

From that account, there will be withdrawals and revenue or loan deposits

- Rent (in)
- Mortgage Payments
- Maintenance expenses
- Renovation costs
- Building insurance
- Applicable operating and business expenses
- Property management fees

Get a real estate business only credit card.

Just like your bank account, mixing your personal expenses with your business expenses creates confusion and additional work for you or your bookkeeper. Having a separate credit card is an efficient and very effective way of maintaining clear audit trails for the CRA, should an audit occur. Veteran REIN members and business owners save hours of time, energy, and stress by making this one very simple change as quickly as possible.

Mixing the costs related to a renovation on your investment property with your monthly household expenses on the same credit card becomes a recipe for frustration, mistakes, and wasted time. A separate card can save you or your bookkeeper hours of time reconciling your statement. Everyone knows that a charge on this card is always business related.

Of course, you MUST remember to keep your receipts and allocate the expense ... or there is a good chance you will have to pay the tax man.

- Get a card with a good points program
- This card is paid from the real estate business bank account
- Proportionate share of costs are charged to the appropriate property (a function of bookkeeping)

Buy a business only computer.

Avoid using the FAMILY computer. Don’t risk the accidental deletion of files by a family member. If you can’t afford one now, buy one as soon as the budget allows for it.

“The Best Way You Can Predict Your Future is to Create It.” (Stephen Covey)

To create your future of investing in real estate, you need to have an idea of where you are going, and at least a basic outline for a plan as to how you will get there. The preceding tips and insights are just a start. They are meant to give you a preliminary context for treating your real estate investing like a business.

Conclusion: Some Key Things We Have Learned About Planning

- Keep it simple for success
- Have a plan and move forward through times of uncertainty and fear
- Partner with people with complementary strengths
- Know that CHAOS always shows up in business
- Work your plan and don’t compare yourself to others
- Grow slow and steady
- Know where your money is, and know where your money is going

Building Your Power Team

Building Your Power

T E A M

Together Everyone Achieves More

Which investor are you? What do you have more of?

☐ Money ☐ Knowledge ☐ Time

What type of investor are you?

☐ Do it yourself ☐ Fund ☐ Single Family ☐ Multi-Family ☐ Turnkey

Who do you need on your team?

Team Member	**Have**	**Need**	**Don't need**
Wealth Management Advisor			
Getting a Property			
Mortgage Broker			
Real Estate Agent			
Real Estate Lawyer			
Managing the Property			
Property Manager			
Handyman/Trades			
Running the Business			
Bookkeeper			
Accountant			
Network/support team			
Insurance Provider			
Next/Advanced Steps			
Joint Venture Partner			
Financial Planner/Legacy Planner			
Commercial Real Estate Agent			

Business of Investing in Real Estate Pyramid

REAL ESTATE INVESTMENT NETWORK

The Business of Investing in Real Estate Pyramid

Property Planning Sheet

- Send contract amendment to assign to JV partner (if applicable)	*						
	COMPLETE BEFORE CONDITION REMOVAL		**COMPLETE BEFORE CLOSING**		**COMPLETE AFTER CLOSING**		**COMMENTS / STATUS:**
	Due	***Date Completed***	***Due***	***Date Completed***	***Due***	***Date Completed***	
Legal							
Lawyer's name:							
Verify his/her availability for closing:	*						
Forward lawyers contact info to: finance company/mortgage broker			*				
Appointment date of closing/signing:___________________________			*				
Prepare downpayment by certified cheque/bank draft			*				
Give void cheque copy re: property mortgage funding account			*				
Banking							
Open bank account for property (with JV as co-signator, if applicable)			*				
Deposit contingency fund into account					*		
Property Management							
Self managed?							
Management company?							
Negotiate Rate			*				
Provide void cheque for property bank account			*				
Status (tenanted or vacant): __________________________________							
If tenanted:			*				
Secure tenant acknowlegement forms - confirmation of deposit, signed lease, rent (and what's included), last rent increase, condition of unit, and no outstanding work-order requests with current owner.			*				
Obtain existing leases from owner			*				
If vacant: entry allowed to show tenants before closing? ___________							
Complete walk through			*				
Send letter to tenants regarding change of ownership			*				
Re-sign leases for existing tenants (ONTARIO ONLY)			*				
Insurance							

Send property details and important dates to broker	*						
Get insurance quote and confirm insurability	*						
Company selected: ______________________________________							
Send name(s) of Title Holder(s) ______________________________			*				
Send void cheque copy if monthly plan			*				
	COMPLETE BEFORE CONDITION REMOVAL		**COMPLETE BEFORE CLOSING**		**COMPLETE AFTER CLOSING**		**COMMENTS / STATUS:**
	Due	***Date Completed***	***Due***	***Date Completed***	***Due***	***Date Completed***	
Liabilities (Utilities / Taxes / Condo Fees)							
Hydro (Tenant/Owner): If owner, inform utility of changeover					*		
Gas (Tenant/Owner): If owner, inform utility of changeover					*		
Water (Tenant/Owner): If owner, inform utility of changeover					*		
Inform municipality of change and set up tax payment system					*		
Inform condo board (if applicable) of change in ownership and set up payment system					*		
Joint Venture Partners							
Prepare JV presentation (economic fundamentals of region and property ROI)	*						
Present to potential JV partner(s)	*						
- Get letter of commitment	*						
- Obtain initial deposit from JV	*						
Prepare Trust Declaration (if quick closing)			*				
Prepare JV agreement			*				
Present JV agreement for partner to review with their lawyer			*				
Finalize and sign JV agreement			*				Use trust declaration if unsigned at closing
Post caveats on title (if JV on title alone)					*		2-3 months post-closing
Renovations (if required)							
Prepare work order			*				
Request, receive and assess quotes			*				
Contractor assigned: __________________________________			*				
Sign renovation contract			*				
Budget and deadline: _________________________________							

Property Maintenance							
On site needed? (Yes/No). If so, who?							
Arrange snow clearing					*		
Arrange cleaning					*		
Arrange lawn and garden care					*		
Arrange repairs (minor)					*		

Future plans for Property
Short Term:
1
2
3
Long Term:
1
2
3

Future plans for tenants

Annual BBQ: (Yes/No) - Host: _______________ Budget:________________

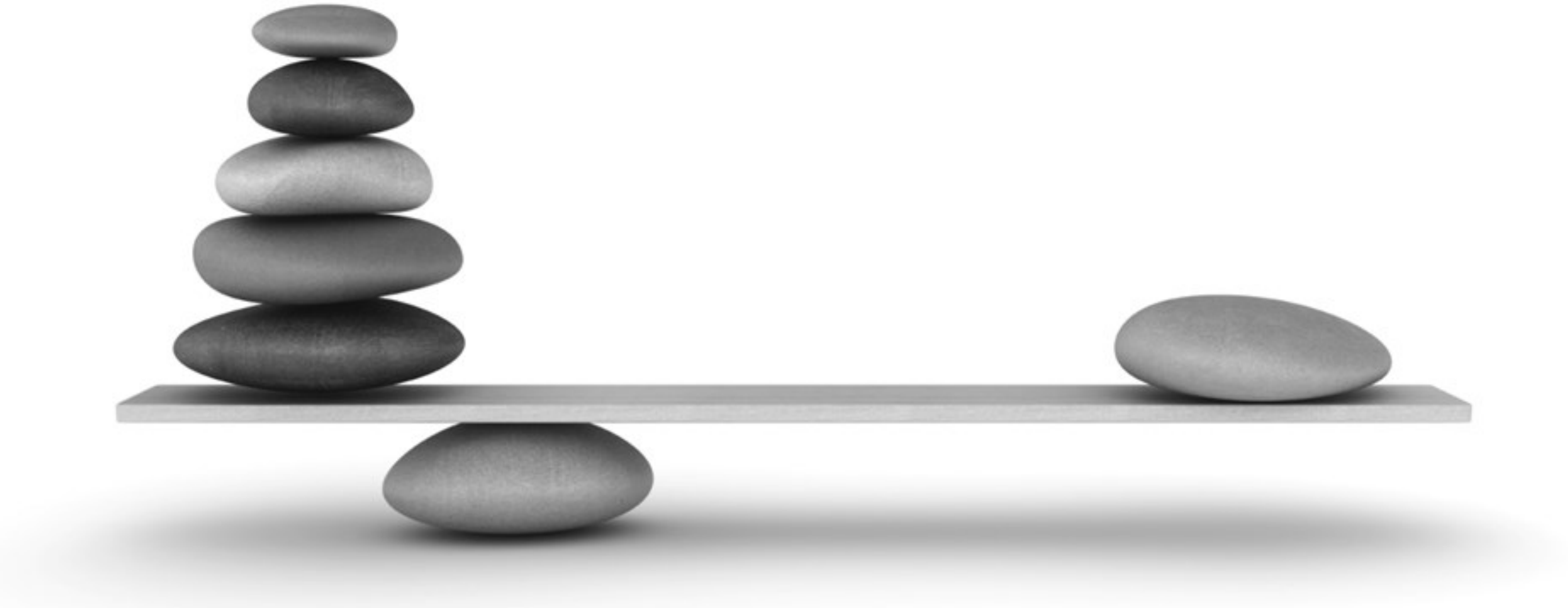
Welcome baskets: (Yes/No) – Budget: _____________ Company: ____________________

Christmas baskets: (Yes/No) – Budget: _____________Company: ____________________

Turkey at Thanksgiving: (Yes/No) – Budget: _____________ Company: ____________________

Annual Gardening Contest: (Yes/No) - Host: _______________ Budget:________________

Family Day: (Yes/No) – Budget: _____________ Venue: ____________________(eg. Wonderland)



Step 4

Power of Leverage

The Power of Leverage in Real Estate

It's NOT Always About Using the Smallest Down Payment

Although leverage plays a major role in a real estate investor's life, it is often misunderstood or misused by both veterans and rookies alike. As with all strategies, a little information can be dangerous, but complete understanding leads to results. This discussion is designed to provide you with more detail on this important subject.

Each investor has their personal risk tolerance level. This tolerance, combined with their specific real estate goals, will direct an investor in their decision regarding how much leverage they will use within their portfolio. With leverage, an investor must find a balance between reducing their down payment and reducing their positive cash flow.

Negative cash flow should be avoided in almost all situations as it will:

1. Force you to work harder in other areas to create cash or income to feed this monthly cash deficit;
2. Dramatically reduce your ability to obtain mortgages on future investments;
3. Force you to rely on dramatic increases in property values or rental incomes (in other words, turn you from an investor to a speculator).

None of these three situations is good news for a sophisticated investor and that is why a balance must be struck.

Finding the Balance

Thanks to the overall long-term stability of residential real estate investments, banks and other financial institutions are willing to provide you with relatively inexpensive financing secured against your investment property. This leverage can dramatically increase your Return on Investment (ROI), but as with any investment, the higher you try to push your ROI, the higher the risk.

On the following pages we will review three separate scenarios. The property remains the same; the holding period remains the same, yet your ROI increases as you factor in leverage options. Remember, maximizing ROI is not always the ultimate goal, and neither is reducing the down payment to nothing. It is all about finding an intelligent balance of the two.

Note: For ease of analysis, we haven't included the bonus of the mortgage pay down that occurs over the holding period of the property.

Purchase & Sale of a Townhouse

Purchase Price	$219,000
Sell Price	$319,000
Net Pre-Tax Capital Gain	$100,000
Net Income	
(average after operating expenses, before financing)	$ 1,150/month

Scenario #1 – Purchased with cash, no leverage. Sold 5 years after purchase

Purchase Price	$219,000
Sell Price	$319,000
Net Pre-Tax Capital Gain	$100,000
Plus	
Net Pre-Tax Income (Positive Cash Flow)	
($1,150 X 60 months)	$ 69,000
Equals Pre-Tax Profit	**$169,000**

Overall (not annualized) ROI = 77% ($169,000/$219,000)

Scenario #2 – Purchased with 20% cash down. Sold 5 years after purchase

Down Payment (20% of $219,000)	$ 43,800
Purchase Price	$219,000
Sell Price	$319,000
Net Pre-Tax Capital Gain	$100,000
Plus	
Net Pre-Tax Income (Positive Cash Flow)	
($1,150 - $961 mortgage payment =	
$189 X 60 Months)	$ 11,340
Equals Pre-Tax Profit	**$111,340**

Overall (Not Annualized) ROI = 254 % ($111,340/$43,800)

Scenario #3 – Purchased with 20% down (from Secured Line of Credit). Sold 5 years after purchase

Down Payment (20% of $219,000)	$ 43,800
Down Payment Cost ($118.63 LOC payments x 60)	$ 7,118
Purchase Price	$219,000
Sell Price	$319,000
Net pre-tax capital gain	$100,000
PLUS	
Net Pre-Tax Income (Positive Cash Flow)	
($1,150 - $961 mortgage payment – $118.63 LOC payment) = $70.37 x 60 months)	$ 4,222
EQUALS Pre-Tax Profit	**$ 104,222**

Overall (not annualized) ROI = 1,464 % ($104,222/43v800)

As you can see, using leverage properly in well-chosen markets can be a positive advantage that real estate provides you. However, you can also see that when analyzing your options there are many moving parts to the equations that must be considered. They include, but are not limited to:

- **Amount of cash available for down payment**
- Your source of down payment
- **Net income after expenses (before financing)**
- Interest rates (now you see how important a veteran mortgage broker is to your team)
- **Potential value increase** (if any)
- Number of properties you wish to purchase overall
- **Your cash flow goals**

In other words, there will NEVER be a black and white answer to the question "How Much Should I Put Down?" The only way to get yourself close to this decision is by following ALL of the steps in the ACRE system: choosing the right town and neighbourhood, analyzing the potential cash flow scenarios, negotiating a good deal with your mortgage broker, and managing the property well. In other words, analyzing… not guessing.

What If Values Stay Flat?

Why do we always stress the importance of cash flow? Simply look at the scenarios above and remove the property value increase (of $100,000). Now we are selling at the same price we purchased (and this doesn't even factor in inflation or any mortgage paydown).

Scenario 1	**New profit = $69,000**	**New ROI 31.5% vs Old 77%**
Scenario 2	**New profit =$11,340**	**New ROI 25.8% vs Old 254%**
Scenario 3	**New profit =$ 4,222**	**New ROI 59.3% vs Old 1,464%**

You can see that, even if you had a roughly flat market, you were still achieving very good returns on your capital. Obviously not as much as if the market had skyrocketed on you, but still very strong.

Oh No, The Market Dropped!

Now what if the property went DOWN 10% in value and you still had to sell it at the 5 year mark. In this scenario, you still received the cash flow, but at the end you have to subtract the drop in value.

Scenario 1	**New profit = $47,100**	**New ROI 21.5% vs Old 77%**
Scenario 2	**New profit = -$10,560**	**Loss vs Old 254%**
Scenario 3	**New profit = -$17,678**	**Loss vs Old 1,464%**

Yes, the old risk reward balance really starts to show when you look at the real numbers, and this is simply an example to illustrate that it is just as important to find a market that has the economic fundamentals as it is to find the right property. It also illustrates that if you plan on selling in the future (which some investors do), choosing the right time to do so is important.

The Unbreakable Leverage Rule: Never Forget The Importance of Positive Cash Flow

As your cash flow increases, your long-term risks decrease, as demonstrated in the above examples. Bottom line, cash flow (passive income) provides you with financial freedom as it can replace (or augment) your salary. Cash flow is the engine that drives your life while equity appreciation is the bonus that can come with a quality, well-chosen property, but should not be counted on. Positive cash flow can cover up many investor mistakes and help cover for potential vacancies or unexpected repairs.

That being said, using all of your capital to have a zero mortgage on your property often isn't an advantage to your bottom line. Always find the balance that works for you. There are regions in North America where you can achieve tremendous positive cash flow, yet very little (if any) equity appreciation, and the reverse is also true. Both can be great investments; don't fall into the negative cash flow trap just so you can have a low down payment.

Financial Calculations - Example #1

Future Value Estimate - Variable Growth Rate

Purchase Price	$240,000.00	
Investment	$ 60,000.00	25%
Mortgage	$180,000.00	30 year Amortization, 6% interest
Years	10	

	Growth Rate	**Mortgage Balance**	**Estimated Net Cash Flow**	**Property Value**	**Year End Equity**	**ROI/ year**	**Total Cumulative ROI**
Yr 1	3%	$177,759.05	$0.00	$247,200.00	$9,440.95	15.7%	
Yr 2	3%	$175,381.61	$0.00	$254,616.00	$19,234.39	16.3%	32.1%
Yr 3	3%	$172,859.38	$0.00	$262,254.48	$29,395.10	16.9%	49.0%
Yr 4	3%	$170,183.57	$0.00	$270,122.11	$39,938.54	17.6%	66.6%
Yr 5	3%	$167,344.80	$0.00	$278,225.78	$50,880.98	18.2%	84.8%
Yr 6	3%	$164,333.14	$0.00	$286,572.55	$62,239.41	18.9%	103.7%
Yr 7	3%	$161,138.07	$0.00	$295,169.73	$74,031.66	19.7%	123.4%
Yr 8	3%	$157,748.43	$0.00	$304,024.82	$86,276.39	20.4%	143.8%
Yr 9	3%	$154,152.36	$0.00	$313,145.56	$98,993.20	21.2%	165.0%
Yr 10	3%	$150,337.27	$0.00	$322,539.93	$112,202.6	22.0%	187.0%

10 year growth rate/year: 3%

Conservative growth rate: 3%

Break-even cash flow: $0

Higher down payment: 25% (can get 20%)

Longer amortization: 30 years (can use 25 years)

Financial Calculations - Example #2

Future Value Estimate - Variable Growth Rate

Purchase Price	$240,000.00	
Investment	$ 60,000.00	25%
Mortgage	$180,000.00	30 year Amortization, 6% interest
Years	10	

	Growth Rate	Mortgage Balance	Estimated Net Cash Flow	Property Value	Year End Equity	ROI/ year	Total Cumulative ROI
Yr 1	3%	$177,759.05	$1,800.00	$247,200.00	$11,240.95	18.7%	
Yr 2	3%	$175,381.61	$1,800.00	$254,616.00	$22,834.39	19.3%	38.1%
Yr 3	3%	$172,859.38	$1,800.00	$262,254.48	$34,795.10	19.9%	58.0%
Yr 4	3%	$170,183.57	$1,800.00	$270,122.11	$47,138.54	20.6%	78.6%
Yr 5	3%	$167,344.80	$1,800.00	$278,225.78	$59,880.98	21.2%	99.8%
Yr 6	3%	$164,333.14	$1,800.00	$286,572.55	$73,039.41	21.9%	121.7%
Yr 7	3%	$161,138.07	$1,800.00	$295,169.73	$86,631.66	22.7%	144.4%
Yr 8	3%	$157,748.43	$1,800.00	$304,024.82	$100,676.39	23.4%	167.8%
Yr 9	3%	$154,152.36	$1,800.00	$313,145.56	$115,193.20	24.2%	192.0%
Yr 10	3%	$150,337.27	$1,800.00	$322,539.93	$130,202.66	25.0%	217.0%

10 year growth rate/yr 3%

Conservative growth rate: 3%

$150/ month cash flow $1,800/year

Higher down payment: 25% (can get 20%)

Longer amortization: 30 years (can use 25 years)

The Power of Leverage

The $100k case study: stocks vs. real estate

You are given $100,00 to invest. You have two options. The stock market or a real estate investment. Let's explore the differences in opportunity and return on investment (ROI) and assume the exact same investment term.

Stocks

About: Many investments work the way stocks and mutual fund investments do. To buy one dollar of stock you spend one dollar. There is no leverage when buying stocks, however, they are a more liquid, that is readily convertible into cash.

The $100k case study: Let's take our $100,000 and invest in stocks. See the assumptions below. Next, calculate our gross profit and return on investment.

Assumptions:

Initial investment	$100,000
Purchased value - stock	$100,000
Performance: value increase	10%
Gross profit	$10,000

Gross Profit Formula:
To calculate gross profit, complete this formula:

Multiply initial investment by performance: value increase = gross profit.

Here's the formula at work, based on the assumptions above.

$100,000 x 0.1 = $10,000

Return On Investment Formula:
To calculate ROI complete this formula:

Gross profit divided by initial investment multiplied by 100 = return on investment percentage.

Here's the formula at work, based on the assumptions above.

$$\frac{\$10,000}{\$100,000} \times 100 = 10\%$$

Congratulations! Your investment generated a 10% return on investment.

Real Estate

About: Now a 10 per cent return in a year period is nothing to complain about. However, using the unique leverage of real estate, you can vastly improve the return you receive on your investment.

Thanks to the overall stability of residential real estate investments, banks and other financial institutions generally like real estate. Banks feel that real estate is a relatively lower risk investment in their portfolio. Therefore, in most cases, they will provide you with 80% of the purchase (or appraised) price, while you only require 20% for the down payment. (This is a standard down payment amount required by most banks)

This provides you, the investor, with substantial leverage on your investment and vastly increases your ROI. It also assists you in using as little of your own capital as possible, allowing you to invest in more property.

The $100k case study: In the next case, let's take our $100,000 dollars and instead of investing in stocks, let's invest in real estate. See the assumptions below.

Knowing the power of leverage and that 20% is required for a down payment, what price of property can we buy with our $100,000 initial investment? In other words, $100,000 is 20 per cent of what amount?

$100,000 divided by .2 = $500,000

With our exact same initial investment, the value of our real estate purchase is $500,000.

The bank becomes your silent partner!

Next, let's calculate our gross profit and return on investment.

Assumptions:

Initial investment/down payment	$100,000
Purchased value - real estate	$500,000
Performance: value increase	10%
Gross profit	$50,000

Gross Profit Formula:
To calculate gross profit, complete this formula:

Multiply initial investment by performance: value increase = gross profit.

Here's the formula at work, based on the assumptions above.

$500,000 x 0.1 = $50,000

Return On Investment Formula:
To calculate ROI complete this formula: gross profit divided by initial investment multiplied by 100 = return on investment percentage.

Here's the formula at work, based on the assumptions above.

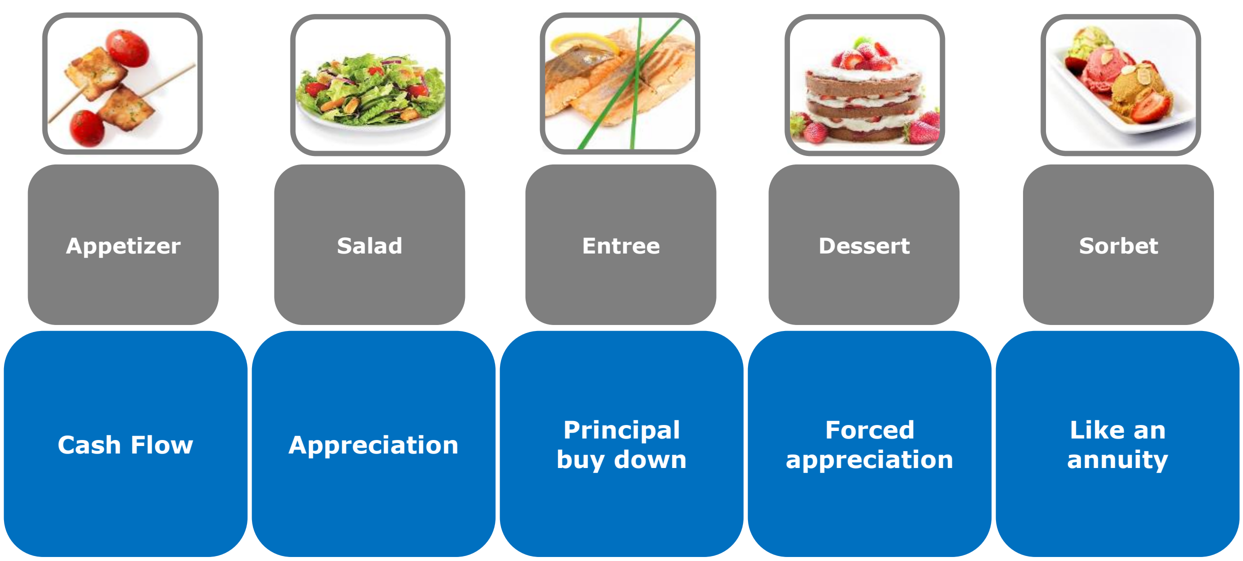
$$\frac{\$\,50{,}000}{\$100{,}000} \times 100 = 50\%$$

Congratulations! Your investment generated a 50% return on investment.

Power of Leverage - Visual

Stocks vs. Bonds vs. Savings vs. Real Estate

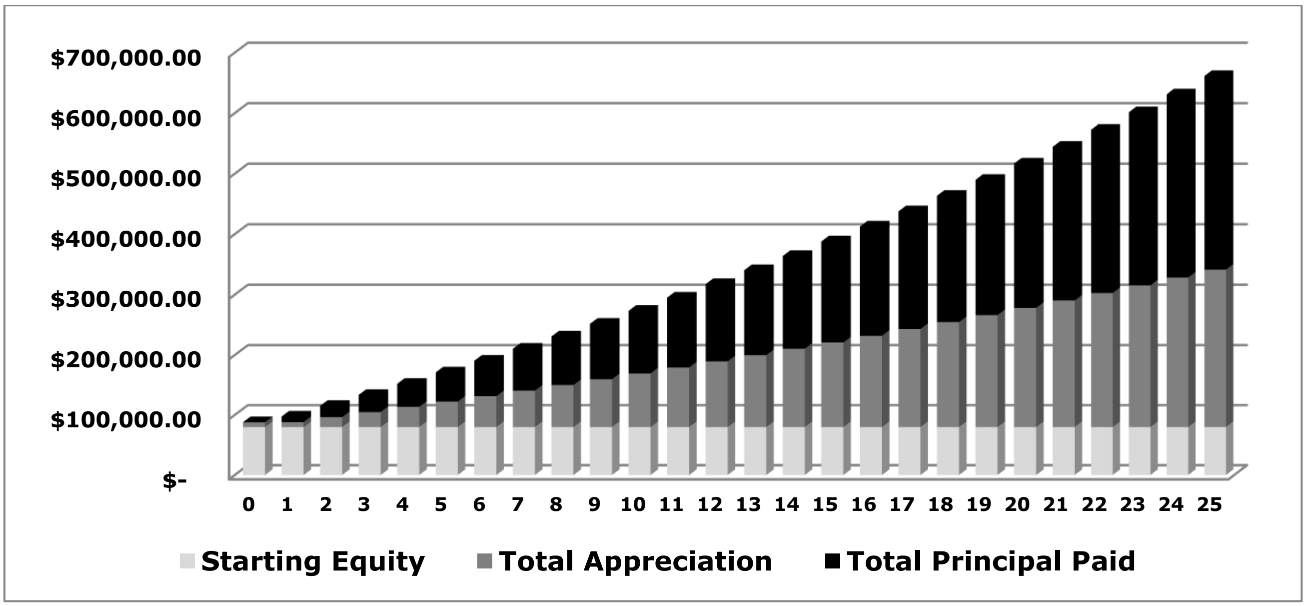
5 Ways to Win with Real Estate



Adapted from: Thomas Beyer, REIN Member
Jennifer Hunt, Vice President, REIN

A Visual Representation

Loan Details	
Current Home Value	$ 400,000.00
Home Appreciation Rate	2%
Current Loan Balance	$ 320,000.00
Loan Initial Interest Rate	2.6%
Years Remaining on Loan	25 years



Year 5	
Starting Equity	$ 80,000.00
Total Appreciation	$ 42,464.97
Total Principal Paid	$ 48,615.40
Total Equity	$171,080.37

Year 10	
Starting Equity	$ 80,000.00
Total Appreciation	$ 89,349.72
Total Principal Paid	$ 103,993.63
Total Equity	$ 273,283.35

Year 25	
Starting Equity	$ 80,000.00
Total Appreciation	$ 261,367.25
Total Principal Paid	$ 320,000.00
Total Equity	$ 661,367.25

Step 5

Your Financial House

Name: ______________________________ Date: ______________________

Gap Analysis

Today: ________________

Lifestyle:

____

Budget: (See Schedule A)

____

Income Sources:

$_______________________________
(Gross Monthly Salary/Income)

$_______________________________
(Spouse's Gross Monthly Salary/Income)

Savings:

Cash: $___________________
(T-Bills, GICs & Term Deposits)

TFSA: $___________________

Investments

- **Real Estate** (See Schedule B)

  Total Value: $________________

  Total Mortgages: $____________

- **Non-Real Estate** (See Schedule C)

  RSP: $______________________

  Pension Plans: $______________

  Other: $____________________

Year: __________________

Lifestyle:

____

(A) Budget:

____

(B) Income Sources:

- ____________________________
- ____________________________

____

A - B = GAP / SURPLUS

________ - ________ = $________

A	-	B	=	GAP

Schedule B: Real Estate Owned

Defined level of ownership you have in real estate

Property #1

Present Market Value $________________________

Amount of Mortgage $________________________

Property #2

Present Market Value $________________________

Amount of Mortgage $________________________

Property #3

Present Market Value $________________________

Amount of Mortgage $________________________

Property #4

Present Market Value $________________________

Amount of Mortgage $________________________

Property #5

Present Market Value $________________________

Amount of Mortgage $________________________

Property #6

Present Market Value $________________________

Amount of Mortgage $________________________

Property #7

Present Market Value $________________________

Amount of Mortgage $________________________

Property #8

Present Market Value $________________________

Amount of Mortgage $________________________

Property #9

Present Market Value $________________________

Amount of Mortgage $________________________

Other

Present Market Value $________________________

Amount of Mortgage $________________________

TOTAL VALUE: $______________________________

TOTAL MORTGAGE: $______________________________

Financial-Preparedness Assessment

Preparedness

Do you know where all your pertinent financial data is located physically and/or digitally; items such as:

YES | NO Bank, Financial Lending Institute
YES | NO Joint Venture, Investor and/or Lender Agreements
YES | NO Deeds, Titles, Contracts, Service Agreements

Do you know where all your instruments for access are such as:

YES | NO Keys (for doors, garages, storage units, apartments, spare keys to vehicles)
YES | NO Combinations (locks, doors, buzzer/entry)
YES | NO Passwords (phone, social media, computer(s), systems)

YES | NO Do you have all of your financial information organized, current, located in one place?

YES | NO In a physical construct (binder, box etc.)
YES | NO Fire-proof, water-resistant
YES | NO Known of its whereabouts by loved ones

Preservation

Do you have insurance policies on:

YES | NO Yourself
YES | NO Your loved ones
YES | NO Your future taxable assets
YES | NO Your properties
YES | NO Your business

YES | NO Do you have a will that is less than two years old?

Are you 100% on your personal, familial financial exposure to:

YES | NO Real estate holdings
YES | NO Joint venture partnerships
YES | NO Capital partners, lenders and/or investors

Minimization

Are your tax filings up to date?

YES | NO Personally
YES | NO Your spouse
YES | NO Your holdings/companies
YES | NO HST (if applicable)

YES | NO Are you utilizing 100% of all tax deductions available to you?

YES | NO Personally
YES | NO As a spouse
YES | NO Corporately

Maximization

Are you 100% clear on all finance solutions/reductions available to you?

YES | NO Personal properties
YES | NO Investment properties
YES | NO Refinance options
YES | NO Cost reduction avenues

Are you clear and understand comfortably the investments you've made in/with:

YES | NO Registered Savings Plans (RRSPs)
YES | NO Mutual Funds
YES | NO Stocks, Bonds, Derivatives, Options
YES | NO Bank-based allocations
YES | NO Money market funds or equivalents
YES | NO Segregated funds
YES | NO MIC's/Syndicate Mortgages (funds or offerings)
YES | NO Limited Partnerships (LP's)

Are you 100% confident with your real estate portfolio for its:

YES | NO Market position
YES | NO Risk exposure
YES | NO Growth potential
YES | NO Yield protection/preservation
YES | NO Cash flow potentials/risks
YES | NO Economic trends and forward looking indicators

Satisfaction

YES | NO Is your current financial plan more than two years old?
YES | NO Has your personal situation altered, or changed?
YES | NO Are the demands and expectations (financially) in the home grown or decreased?
YES | NO Are you confident your current plan will meet even exceed your needs?

YES | NO Are you clear 100% on the direction of your financial plan's outcome?

YES | NO Considering all potential impediments?
YES | NO Considering the geopolitical exposure/risks?
YES | NO Considering the method in which you are clear about, used to rebalance your holdings?

YES | NO Are you 100% comfortable with your plan's alignment to your values today?

YES | NO Given who you now are?
YES | NO Given who your spouse is today?
YES | NO Given the framework of expectations and needs of your children?

Overall

YES | NO Do you feel more vulnerable than invincible financially?

Preparedness	Preservation	Minimization	Maximization	Satisfaction
Total Yes:	Total Yes:	Total Yes:	Total Yes:	Total Yes:
Total No:	Total No:	Total No:	Total No:	Total No:

REIN Finance Centre

The REIN Finance Centre Powered by Mortgage Alliance and VINE Group provides REIN Members the exclusive benefits of a national network of mortgage finance professionals and an investor-focused team.

The REIN Finance Centre is the source for our Member's results, supporting their financial freedom by design by providing clear goals and a path to get there.

In addition, VINE Group combines their experience in mortgage lending and financial advisory expertise to provide a hybrid-holistic approach to all REIN Members financial needs and plans.

VINE Group has extensive experience in both residential and commercial financing and will provide REIN Members the horsepower and bandwidth. With a direct line and e-mail, REIN Members (only) can count on professional advice in regards to mortgages, as well as portfolio management and private equity.

Critical next step: Create your Financial Blueprint.

Your personalized blueprint is designed to look at your current overall financial picture, and by working backwards from where you want to be, defines your next steps.

This method allows real estate investors to be strategic in their investment financing to build a portfolio of residential properties. Using the wrong lender at the wrong time can be the difference between financing four to five residential properties versus financing 15 plus properties.

With lenders policies constantly changing, it's important to create a financing strategy in order to reach long-term growth.

The blueprint allows investors to match the best mortgage options at every stage of their investment strategy. Investors who follow the blueprint will be able to maximize the best mortgage options, improve cash flow, reduce interest costs, and gain easier access to equity.

If you don't get the right financing in the right order from the right institution it could affect your ability to meet your Personal Belize.

Set up an appointment to begin putting your financial blueprint and plan together.

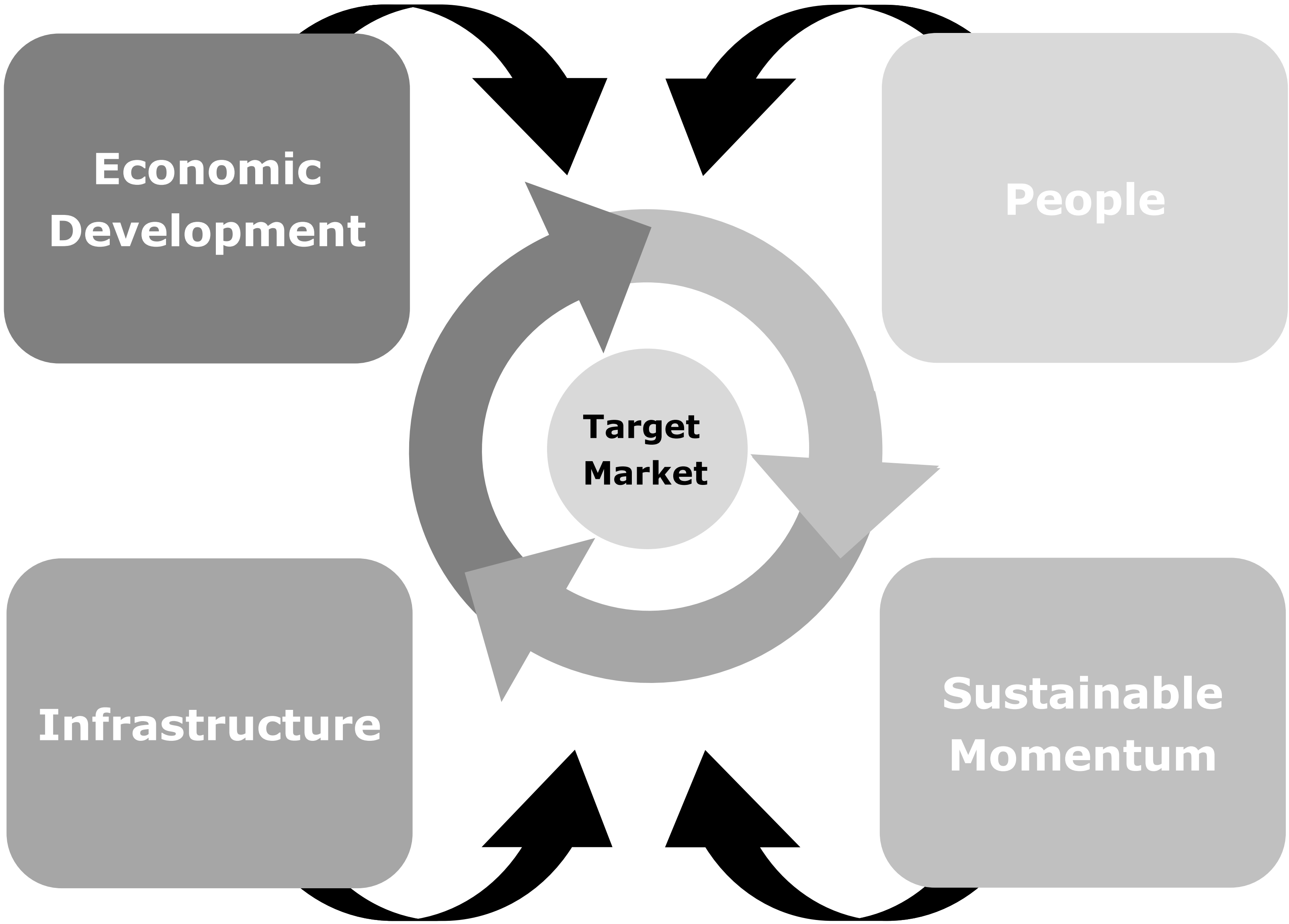
Call 1-844-411-VINE (8463) or e-mail finance@reincanada.com

Step 6

Market Research:

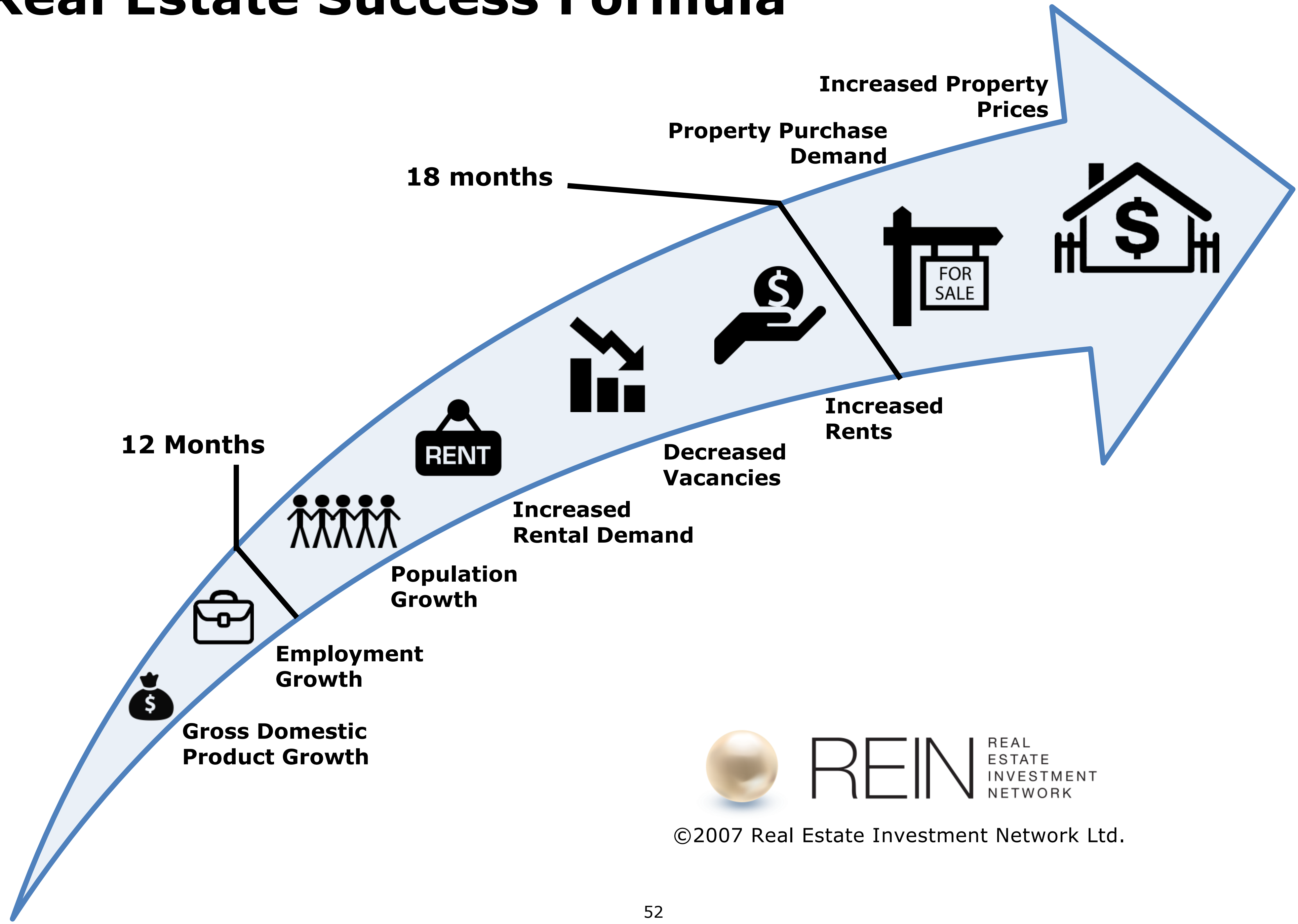
Where - REIN's Property Goldmine Scorecard

The Foundations of an Investor's Market

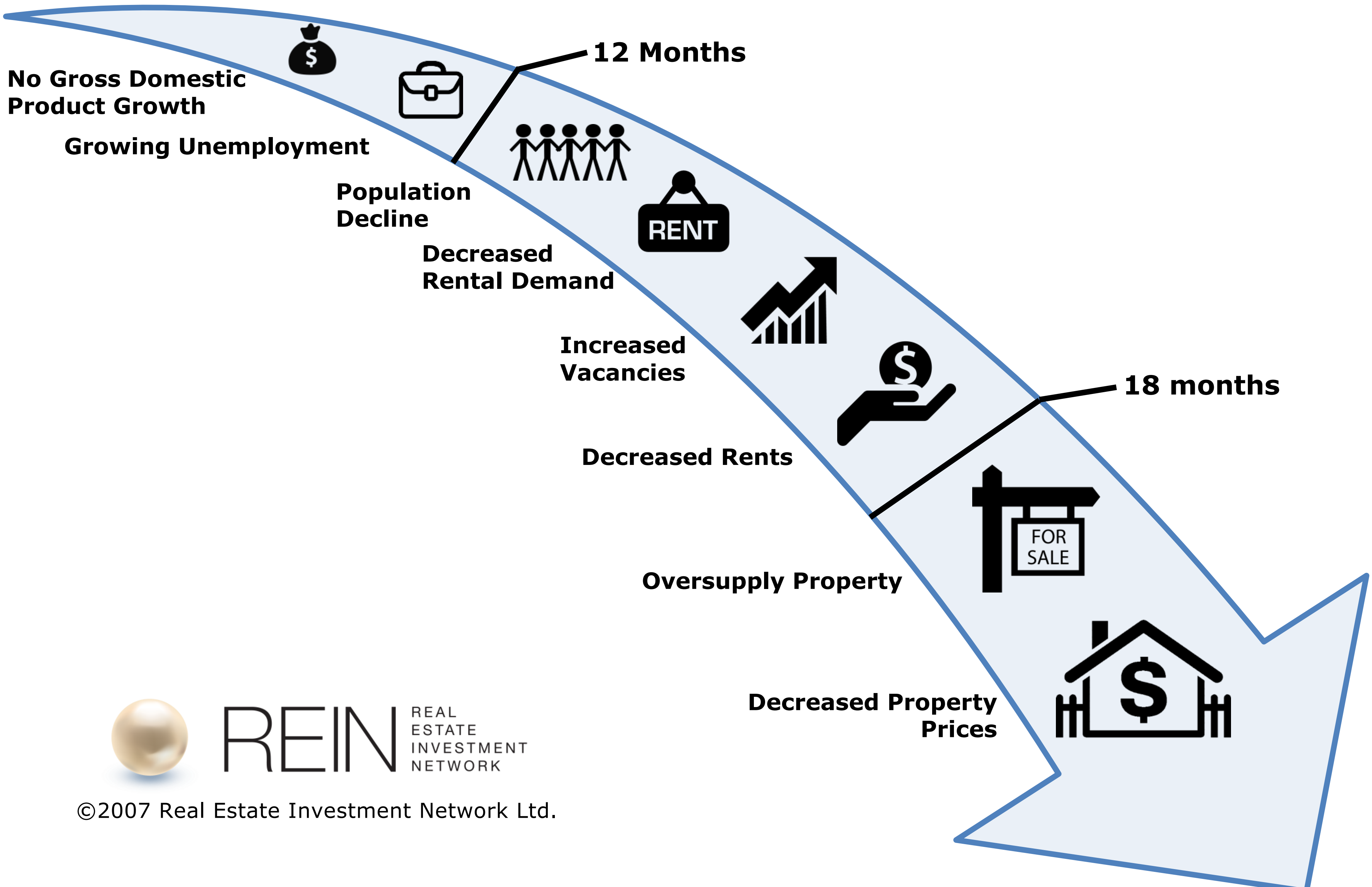


REIN REAL ESTATE INVESTMENT NETWORK

REIN's Long-Term Real Estate Success Formula



REIN's Long-Term
Real Estate Economic Turmoil Formula



REIN
REAL ESTATE INVESTMENT NETWORK

Economic fundamentals, market influencers, and geographic specialization.

About

Searching for a perfect investment property? The search doesn't start with a list of properties, or a random property that seems cheap. In order to lower your risk and think more strategically you must begin your search by clearly identifying a city, town and neighbourhood that is poised to help make your property a financial success. Then, and only then, do you begin to look at specific properties. Economic Fundamentals are at the source of your financial future.

REIN teaches there are key drivers, market influencers, and neighborhood specific insights that affect both the current and future value of every piece of real estate. Using these key indicators, you will uncover areas with future potential, not a reputation based on past performance.

REIN's Property Goldmine Scorecard is your step-by-step guide to uncovering property goldmines, by ensuring you fully analyze the economic fundamentals, market influencers, and neighbourhood, before you take action, before you buy.

The more checkmarks you uncover using REIN's Property Goldmine Scorecard, the better chance the property has of profit potential.

Why Be Strategic

Strategic investing is all about eliminating emotions and opinions while designing your portfolio.

With every real estate purchase, investors must do their due diligence by thoroughly and independently researching and verifying all the information available on the town and the property itself. No matter how hot the market, there will always be properties that don't do well. The way to avoid owning one of these underperformers is to follow a proven investment system that forces you to ask the tough questions while ignoring market hype and misinformation.

Methodology

REIN's Property Goldmine Scorecard is a REIN exclusive methodology and tool designed to give you a simple and easy checklist to follow. It is adapted from the books *Real Estate Investing in Canada* and *Secrets of the Canadian Real Estate Cycle*, and from REIN's Long Term Real Estate Success Formula. To be most effective, make sure you understand all the key drivers and market influencers as detailed in the books.

For examples, check out REIN's Economic Fundamentals Reports. Or, if you are pressed for time, on page four of the 2018 *Top Ten Ontario Towns and Cities* report, you will find REIN's Long Term Real Estate Success Formula, which visually represents the economic fundamentals that drive the real estate market. It's like a five-minute crash course and especially effective for visual learners.

Create a REIN Property Goldmine Scorecard for each property you're considering. If you've already completed a current Scorecard for the region, you can easily transfer that information onto your next REIN Property Goldmine Scorecard if the property is located in the same area. Then you can complete the property specific questions. Keep these completed cards in your property file and make them a part of your sophisticated investor binder.

Analyze these Fundamentals Before You Invest in Any Market in Any Region
Just like the stock market, not all towns see real estate values increase in a booming market and many underperform even in an average market. Our job as investors is to pick the areas that will provide us the best returns for the lowest risk. There is a simple and easy strategy for doing this.

Focus on the Key Drivers that Drive the Real Estate Cycle - Not Emotions
By removing emotions, you are left with making decisions based solely on the drivers that affect the Real Estate Cycle, which will give you a huge edge in the marketplace, and will help you keep a level head during the inevitable phases.

While others are buying and selling their properties based on an emotional reaction to a news event, you'll be able to stick with your system: buying properties at a price that fits your system and knowing that the drivers will take care of you in the coming years. And on the flip-side, you'll be able to identify when the time is right to sell.

Identify the Towns with a Future - Not a Past

The first step to successful real estate investing is to identify a city, town or neighbourhood that has a future, not a past. Sadly, many investors like to invest based on past performance so they're constantly chasing the market. They'll jump into a town because property values have increased over the last three years. That's like buying a stock because it's increased in value three years in a row. Doing this in both instances is called speculating - not investing.

As an educated investor, you begin by analyzing the macro picture of the area and find out what economics are driving the region's growth and real estate demand. Then, after you find a region, you drill down to specific neighbourhoods, and then to specific properties, looking for a quality piece of investment real estate in a town with a future.

Key Drivers that Unlock the Vault

There are Key Drivers and Market Influencers that affect real estate values, some of which sound obvious, and some of which are a little more surprising. Each of these affects real estate prices in both directions, and each one is an important component in finding which way real estate values will be going.

You will use media and government announcements to begin your examination. Soon you will be watching the news with a whole new set of eyes - eyes trained on finding real estate opportunities.

For this exercise, it is important to picture in your mind a property or region where the event is occurring. This will help get you in the habit of watching for opportunities everywhere you go. During this exercise, if you're not sure a region fits the rule, take a wild guess and write it down. It may or may not be correct, but you can check it later. What you'll have by the end of this exercise is a list of areas that have investment potential. Then, you'll take your list and narrow down the regions to the areas with the best potential.

REIN's Property Goldmine Scorecard is just one step in analyzing real estate potential; once you've completed this first analysis, make sure that you follow all of the steps on the REIN property ladder. This includes completing REIN's Property Analyzer Form and REIN's Due Diligence checklist.

Sourcing information

Your sources for the answers to these critical economic questions will come from many sources. These include, but are not limited to:

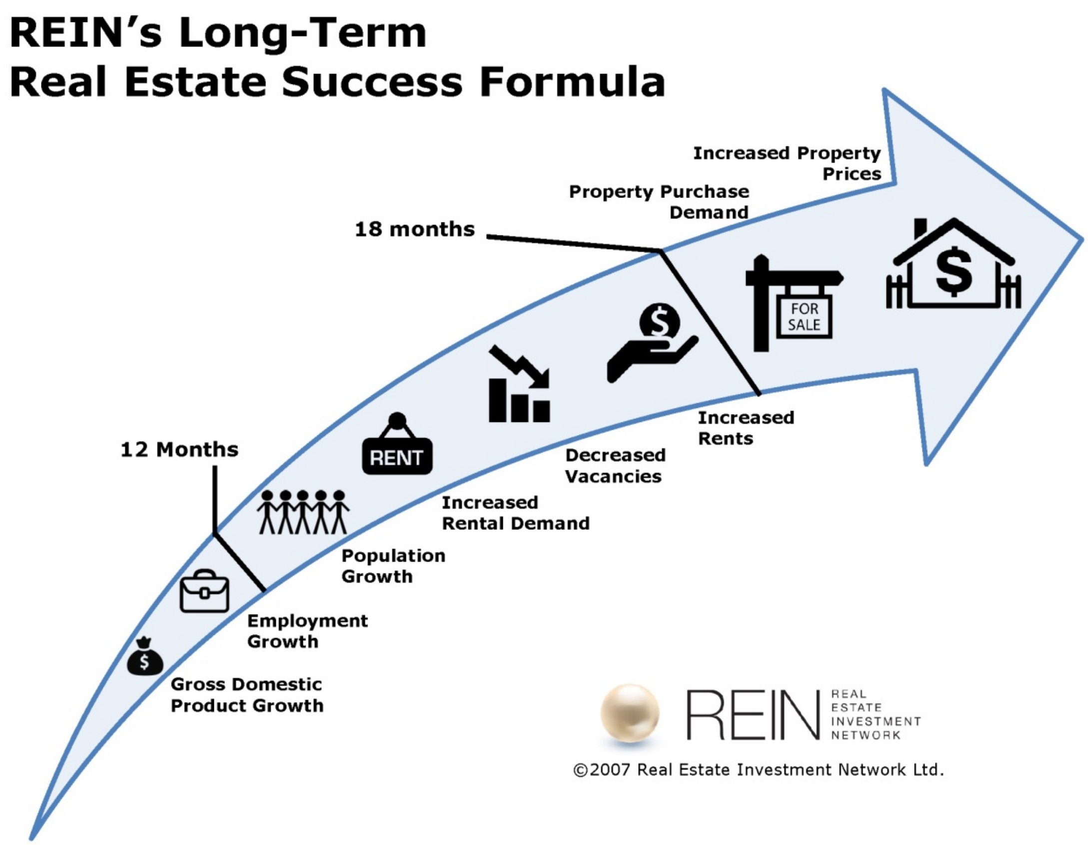
- Research reports published by Canadian Mortgage and Housing Corporation (CMHC)
- Statistics Canada's most recent census information available at the time
- Multiple Listing Service (MLS)
- Rental sites like Padmapper.com, Craigslist, Kijiji
- Canadian Home Builders' Association
- Federal government
- Provincial government
- Municipal government - City Economic Development
- City and Regional Real Estate Boards
- Locals, particularly REIN Members living and/or investing in the area, who can provide real time and on the street experience.

Additionally, specific resources are referenced directly on REIN's Property Goldmine Scorecard.

Sometimes, you will need to be creative to get the answers; however, these questions are all critical in assisting you assess the risk of the property investment … be diligent in your pursuit of answers.

REIN's Long-Term Real Estate Success Formula

Sustainable real estate price increases occur approximately 18 months after a region's economy begins to grow and they drop approximately 18 months after the economy in a region begins to shrink. This formula works both ways, over roughly the same time lines.



GDP Growth → Job Growth → Population Growth → Increased Rental Demand → Decreased Vacancies → Increased Rents → Property Purchase Demand →Increase in Property Prices

REIN's Long-Term Real Estate Success Formula makes it easier to:

- Visually see the key drivers
- Understand the correlation and impact a key driver has on the next phase
- Predict what is going to occur in your real estate market

As an investor or home buyer, it is critical that you consider the underlying economic structure propping up your region and confirm that it has long-term sustainability. Identifying regions with a well-structured and well supported future must remain your number one priority.

Economic Fundamentals: The Key Drivers

Key drivers are market factors that propel the real estate market through the real estate cycle. They directly affect supply and demand.

GROSS DOMESTIC PRODUCTS (GDP)

1. GDP growth rate

EMPLOYMENT

2. Employment rate
3. Incomes
4. Employers: quantity and diversity

POPULATION

5. Population growth rate
6. Median age
7. Net migration
8. First-time home buyers

HOUSING MARKET

9. Real estate values
10. Real estate listings
11. Real estate sales
12. Number of days on market
13. Rents
14. Vacancy rates
15. Real estate affordability
16. Housing construction starts
17. Real Estate ROI/Cashflow

Market Influencers:

Market influencers are factors that affect the perception of an impending change in the real estate cycle. They have a temporary impact on the market, so it is necessary to be aware of them, but not necessary to add them into your calculations.

Macro

18. Finance availability - Real Estate Scorecard Metric
19. Mortgage interest rates
20. Inflation
21. Foreign Investment
22. Access to Alternative Investments
23. What's Behind the Curtain

Micro

24. Infrastructure and transportation
25. Political climate: open for business, property taxes, etc.
26. Areas of Revitalization - Real Estate Scorecard Metric
27. Ripple Effect
28. What's Behind the Curtain

Geographic Specialization: Get to know your neighbourhood.

Now you know how key drivers and market influencers work together to guide you to a goldmine. Complete the scorecard for your real estate market.

You're looking for a region that has as many YES checkmarks as possible. The more checkmarks you have the stronger the fundamentals are for that property's future.

Complete REIN's Property Goldmine Scorecard - Checklist.

REIN's Property Goldmine Scorecard – Checklist.

Now you know how economic fundamental key drivers, market influencers, and geographic specialization work together to guide you to a goldmine. Complete the scorecard for your real estate market.

You're looking for a region that has as many 'YES' checkmarks as possible. The more checkmarks you have the stronger the fundamentals are for that property's future.

REIN's Property Goldmine Scorecard - Definitions

Now we know what economic fundamental key drivers and market influencers to watch for, here are their definitions:

Economic Fundamentals: The Key Drivers

GROSS DOMESTIC PRODUCTS (GDP)

1. GDP growth rate

GDP is a measure of a region's output and is based on the market value of goods and services being produced. Real estate and associated products and services make a significant contribution to a country's GDP, which tends to peak in the recovery or early boom phase and reaches a trough in the middle of the slump phase. That said, when assessing a market, it is important to look at the regional (municipal and provincial) GDP numbers. As jobs are created and people move into an area, not only is the GDP affected by the job increases themselves, people moving into the area also tend to buy more consumer goods. When moving from another city, province or country, many people choose to liquidate furniture and cars, for example, and purchase new products in their new community. This increase in spending further stimulates the GDP.

EMPLOYMENT

2. Employment rate

The biggest driver of the real estate market is jobs. The more diverse the economy, the safer and more solid the foundation is for real estate investing. For example, an announcement of a $25 billion ship building contract awarded to Halifax over the next couple of decades is a prime example of a long-term employment trend that will have a positive effect on real estate. In the recent past, there has been an exodus of young able bodied people from the Maritimes as they seek higher paying jobs that were scarce in their communities. This contract will create many direct and indirect jobs that will serve to keep Maritimers in the Maritimes, thus increasing the demand for real estate.

Essentially, more employment leads to higher incomes which leads to a greater ability to buy and/or rent real estate.

3. Incomes

This factor is often overlooked, or discounted, by investors, but it's one of the most important numbers to track as an indicator of future value. If a town's average disposable income is increasing faster than the provincial average, real estate prices are poised to do the same.

For instance, if your target town's income is currently low, yet increasing at five per cent per year, while the provincial average is only three per cent, this is a sign that real estate values also have a strong potential to move upward. Remember, what we are looking for is a town that will outperform the rest of the marketplace. Even if the values across the whole province are increasing, a town with a higher gross income increase will do even better.

Be wary of cities and towns where demand is driving values upward, while the average income is remaining flat or decreasing. This is often true of towns that are attracting a lot of retirees or a lot of real estate speculators. The town may be a good short-term investment, but without an increase in the average income, increases in real estate values will not be sustainable over the long-term.

4. Employers: quantity and diversity

Look for regions with a diversified economy. Although this is more common in larger centres, smaller ones may also attract a variety of businesses. Single resource-based towns are incredible job generators; however, a ripple in the economy or world events can bring the community to its knees. Consider the impact on auto manufacturing in Ontario, the housing crash in the US and its impact on forestry communities, the impact of the pine beetle on pulp and paper, and Silicon Valley in the 80's with the .com bust. With no job or job prospects, people will leave in droves making it extremely difficult to rent out or sell investment real estate. With multiple employers, the risk is mitigated.

POPULATION

5. Population growth rate

You want to find areas where the population is growing faster than the provincial average, and they are gaining a reputation as great places to live.

Look for areas to which people are moving at a rate faster than the provincial average. Watch for major announcements of new jobs or major new businesses moving to an area. This is always a good sign of future increase in demand. When people move into an area, they often rent before purchasing a home. The more people that move into an area, the more demand for rental housing, the lower the vacancy rate, and the higher the potential rents. Be wary of areas with lots of people moving in but no jobs; it could be a sign of a temporary upswing or a retirement community.

6. Median age

Also take a look at the age of the population. Populations with a median age below the provincial median are desirable as younger people tend to stimulate the housing market by moving more frequently. They contribute to the economic tax base through their higher income taxes (through employment compared to retired people). They also tend to consume more goods, further contributing to taxes, spurring consumer confidence through their spending. Areas attractive to large groups of retirees may lack a tax base to support future growth. Infrastructure decisions are often influenced by the constituents that naturally make choices to support their needs instead of electing to build new schools, recreational centres, parks, or other amenities attractive to young families.

7. Net migration

In addition to looking for a city's population that is growing faster than the provincial average, analyze both components of migration. Are people moving from other provinces, or is the migration from other countries? Statistics Canada is a resource that can demonstrate long-term steady growth into an area, which is what you are looking for. Population changes can be rapid; however, you must look behind the curtain to determine if the rapid growth is sustainable and not a short-term response. Areas that are attracting a steady influx of people usually have jobs to offer, which will support the overall consumer market. Further, this demographic driver will put pressure on the housing stock, first via decreased vacancies and then increased rents, and then via increased demand for homes, thus reduced supply, which will drive up home prices for buyers. The reverse is also true; in decreasing populations, there will eventually be a decreased demand for rentals and competition will ensue to attract renters, which will lower the monthly rental amount that can be demanded.

- Immigration—people from other countries moving into the area
- Intra-migration—people moving from other parts of Canada into the area

8. First-time home buyers

First-time home buyers are individuals who are purchasing a principal residence for the first time. Through the creation of new households, these new buyers create a demand in the market for entry level homes, which allow the owners of the starter homes to purchase larger, more expensive, or forever homes. First-time home buyers become the catalyst that allows everyone else in the market to move up.

HOUSING MARKET

9. Real estate values

Real estate values are an estimate of what a home or a piece of land is actually worth; the price may be higher or lower, depending on where it is in the cycle.

10. Real estate listings

In contrast to sales volumes, real estate listings will peak during the slump phase as the supply of real estate exceeds demand. Listings will reach their lowest point during the boom phase when properties are selling rapidly. This key driver, like the number of days it takes to sell real estate, can cause potential real estate buyers to fear that they may miss out on the wave of capital growth during the boom phase of the real estate cycle. During the slump phase, vendors fear that if they do not put a realistic price on their real estate, it may take a long time to sell due to the high number of listings available during this phase.

Vendors are only too aware of how to make their real estate more marketable to the few purchasers in the market during the slump. This is why they discount their selling price significantly at this point.

11. Real estate sales

Sales volumes will peak near the end of the boom phase and hit their lowest point near the end of the slump phase. During the boom phase, inexperienced investors become aware of the high level of sales and fear they may be missing out because so many other investors are buying so much real estate. During the slump phase, many investors are fearful of the low level of sales, as they realize that real estate is no longer an asset that can be quickly realized if they need to sell.

12. Number of days on market

This key driver can influence the levels of fear experienced by potential real estate buyers during the boom, and by vendors during the slump. For example, during a boom phase, potential buyers fear that if they do not make a quick decision, they may miss out on the wave of capital growth in values as properties are selling rapidly. During a slump phase, vendors fear that if they do not place a realistic price on their real estate, it may take a long time to secure a sale. The number of days to sell peaks at the end of the slump phase and troughs from midway to the end of the boom phase.

In a boom phase (well, in any phase), do not let low days on market numbers deter you from doing a thorough inspection and putting in offers with adequate conditions. Many people, in their frenzy to get into the market, make mistakes that cost them more money in the long term.

13. Rents

Rent levels typically overcompensate for increased demand during a boom phase and reach unsustainably high levels. They also overcompensate for decreased demand during the slump phase and reach very low levels. Rents will peak near the middle of a boom phase and trough near the middle of a slump phase. In rent-controlled regions it is important to use market rent numbers rather than average rents in order to get a more accurate picture. Average rents will be skewed lower and be less volatile in rent control regions.

14. Vacancy rates

A major increase in demand, without a corresponding increase in supply, will always drive prices upwards. However, in the real estate market it is important to know the reasons behind the increase in demand, so you can be assured that the increase is being driven by fundamentals, not speculation. For example, in one Northern BC community, vacancy rates were near zero (rent and house prices were also high). Speculators jumped on the bandwagon only to discover that the frenzy was due to a short-term driver – this single industry-based town was desperately trying to mill all of the wood destroyed by the pine beetle. It could not employ enough people and the mills were paying handsomely to reap some profit before the wood became unusable. As soon as that wood was processed, the jobs dried up because everything was tied to the lumber industry. Vacancies skyrocketed, and rents and values plummeted. Everyone moved out because there were no jobs. The lesson here is to know the reason behind the increase in demand.

For another example, in cities hosting Olympic events, speculators often scramble to purchase investment property with the anticipation that people will want to move to the area to live or vacation, thus increasing the value and lowering the vacancy rate. Such a real estate phenomenon is not supported by economic fundamentals.

15. Real estate affordability

Affordability is impacted by several factors including ease of borrowing, interest rates, income levels, and rental rates. Real estate becomes least affordable during the beginning of the slump phase and most affordable during the recovery phase. The Royal Bank of Canada produces an Affordability Index for the major cities across Canada. These indices reflect the median cost of a home (broken into different housing categories) as compared to a median household income. The measurement shows how much of a median PRE-TAX income is required to purchase a median priced home. Areas with high housing prices may not be unreasonable because wages may also be high. Conversely, low prices of homes may not necessarily mean that homes are more affordable to the residents if wages are generally really low. The number is expressed on a scale of 1 to 100 (and possibly higher!) with a higher percentage meaning more pre-tax income is necessary to afford a house. The sweet spot falls between 25-39% of pre-tax income. If the number is too low, it means that rentership may also be low because the vast majority of residents can afford to buy. Conversely, very high numbers often mean that investment properties will not cash flow because no one can afford the rents necessary to cover the investor's costs.

16. Housing construction starts

Looking at the housing numbers is like looking in a rear-view mirror. New home construction numbers are a reaction to past need and do very little to indicate where things are headed or where they are now. The lag typically results in an eventual oversupply after the demand has dissipated. It does reflect developer's feelings on housing prices vis à vis the cost of building. For example, the extremely low housing prices in many US cities means that it costs more to build given the current labour and material costs; hence, there are very few new homes being constructed.

17. Real Estate ROI/Cashflow

This is the gross annual rental income (based on market rates) divided by the market value of the real estate. Investment funds will move toward where the ROI is best – and real estate is often compared to the returns being offered elsewhere (stocks, bonds, bank deposits). The ROI of real estate tends to peak during the recovery phase and reach a trough during the early stages of the slump phase

Market Influencers:

Macro

18. Finance availability

A loosening of credit criteria brings more purchasers into the market, causing a short-term positive influence. Alternatively, a tightening of lending rules takes purchasers out of the mix and causes a short-term negative effect. A clear example of this was the 2008 housing crisis in the United States. NINJA mortgages (No Income, No Job or Assets) resulted in hordes of people "qualifying" for mortgages that they couldn't afford. This loosening of credit criteria led to a huge boom in the housing market, followed by the crash when more realistic criteria kicked in. The contraction of financing availability resulted in a slowdown of purchasing for both home owners and investors, who faced much tougher conditions. This can come in the form of: more money down required, more stringent proof of income requirements (pertinent to the self-employed), shortened lengths of amortization (for example you now have fewer years to spread out a mortgage meaning the monthly payments are higher, making it harder for people to afford a home at the same value but with a longer amortization) and lower percentages of Home Equity Lines of Credit (HELOC), or Loan to Values (LTV).

19. Mortgage interest rates

Mortgage rates are discussed in the media just about every day. Yet, even though they have become a national obsession, many people don't understand how interest rates work. The most obvious assumption is that low mortgage rates drive values upward, while high interest rates keep values down. Using this theory, you would think that a low interest-rate environment is good for the real estate investor. *However, this assumption is false*.

Lower mortgage rates will help drive values up and keep an investor's expenses down, but this positive effect is offset by the increase in the vacancy rates that low rates bring. One caveat: if you're buying and flipping properties, low interest rates are good for your business. If you're buying and renting, then a little increase in interest rates can prove to be a very good thing over the long-term of your investment.

Bottom Line: Low mortgage rates are neutral for real estate investors.

20. Inflation

When you find regions where there is a marked increase in costs, you will discover they eventually drive up the prices of resale properties. During these rapid cost increases it is never fun, but what you can focus on is that the inflation of labour and materials will begin to show up in property values in approximately six months.

The inflation rate of a region can, and will, push values of property and other hard assets upwards at a percentage equaling the inflation rate. Sounds simple enough. However, it is important to note that most governments are concerned with keeping the inflation rate around the 2 – 2.5% level and will adjust interest rates accordingly.

Why is this important? Simply, because an area in which the other economic fundamentals are strong (job growth, in-migration etc.) may have a significantly higher inflation rate than the nation, meaning your target area may be experiencing high inflation while the rest of the country is not.

Keep an eye on the monthly Inflation Rate reports from Statistics Canada as they will indicate whether your target region's economy is pushing values up more quickly than the rest of the country.

Additionally, often in areas of increased in-migration and infrastructure expansion, labour and materials costs will increase dramatically. This has a direct effect on the cost of building new housing and the completion of renovation projects. This will, in turn, drive up the value of existing properties.

As an investor who is purchasing from the existing stock of real estate this increased cost of labour and materials is a good thing. The increased cost of labour, in other words, means workers are getting paid more, which will help drive rents and values upwards – and the increase in materials makes the demand for existing housing stronger than for newly built properties, thus, once again driving up the values of your existing properties.

21. Foreign Investment

An influx or exodus of foreign investors buying or selling real estate in the local market often has an immediate impact on that market. This occurs because foreign investors tend to follow a herd mentality with their purchases and sales, which is based on their unfamiliarity with local markets. Similarly, foreign investor's decisions on where to invest can be fickle and can create volatility in the local market. Markets based disproportionately on foreign investment can be volatile. Take for example, the influx of Canadians purchasing in certain US markets due to low purchase prices, coupled with a low American dollar value compared to the loonie. A sudden decrease in the value of the Canadian dollar, or the implementation of foreign ownership taxes, could easily result in Canadians liquidating their US real estate assets, resulting in the bottom dropping out of some markets. Consider the price correction that would be inevitable in some Canadian markets with the withdrawal of heavily vested foreign owners if homeland politics, world economies, or Canadian foreign ownership laws changed.

22. Access to Alternative Investments

While the term alternative investments means different things to different people, it typically refers to investments that are outside the traditional stock, bond, mutual fund, or real estate portfolio. Alternative investment vehicles are always being compared with real estate, which is essentially an alternative investment itself. The popularity of this type of investment has increased in recent years due to the volatility of traditional investments. In general terms, alternative investments typically are most attractive during periods of crisis or economic uncertainty, and therefore, move in opposite directions. These investments provide a hedge, meaning they reduce the risk of loss in your overall portfolio. A significant number of investment funds will gravitate toward the most favourable vehicle of the time. The herd mentality tends to dominate the direction in which these investment funds flow.

23. What's Behind the Curtain - Nationally

The effect of confidence in real estate as an investment vehicle builds momentum over time. Confidence tends to be a reaction to the state of the real estate market but can influence the market by creating a perception of reality upon which novice (or greedy) investors act, because they do not recognize (or respect) the long-term consequences of decisions based on this particular market influencer.

Micro

24. Infrastructure and transportation

Infrastructure: This is another instance where reading major and local newspapers every day can pay off. You'll see opportunities everywhere! Paying attention will pay you dividends. When you read an announcement of a major infrastructure improvement in the works, analyze the potential benefits. These announcements could be the annexation of new land by a city, a new transportation development, a new sewer or water plant. All these signs are indicative of a region being pro-active in attracting growth.

There are many cities and towns in the country which are poised to grow quickly. They may have a high number of economic fundamentals going for them; however, they don't have the capacity to add to the sewer system, or they're running out of the industrial land they require to attract more businesses (jobs), they don't have enough schools or hospitals, or they are very difficult to drive to. All of these factors will negatively affect long-term values in the region. The reverse is also true. If the region has the infrastructure in place to service this growth (including water treatment plants, industrial land, residential land, and new highways), the long-term outlook for real estate demand is very good.

Transportation is a critical infrastructure component – it results in increasing accessibility to an area and can even bring two cities "closer" by reducing travel time. Distance is no longer measured in kilometres, it is measured in minutes. Anything that shortens the time and makes it easier to get into and around the town will eventually drive prices skyward. Ease of transportation of goods and people also encourages businesses (jobs) to locate to those areas. In fact, many surveys of the real estate market have shown that easy access to rail or rapid transit can drive rents upwards of 15% percent above prevailing market prices. This factor alone will increase your income and the value of your property.

Accessibility means population inflow; population inflow means higher demand; higher demand equals increased property values. That's how simple the formula is.

Look for major transportation announcements by watching the media and reading the newspapers that cover your target area. One warning: don't buy on the announcement; buy after the work begins so you know it's actually going to happen.

25. Political climate: open for business, property taxes, etc.

As a real estate investor, you must keep your eyes and ears open to the shifts in political winds. What you're looking for is a business-friendly environment with minimal taxation (both income and property) and with a fair landlord and tenant legal structure.

Ideally, you are looking for an area with strong growth in both new industries and new jobs so that there are more potential renters. As a real estate investor, it is important to understand that you are in business (even if you only own one property), and anything that enhances your business's ability for success should be applauded and supported.

Business Friendly Generally Equals Real Estate Friendly

Jobs and taxation directly affect real estate values – look for regions where development is wanted, not shunned.

Real estate investment is a complicated business impacted by the local Economic Development Office. In a perfect investment world, you will find an area with the potential to attract and sustain a good supply of quality renters and eventual buyers. That means an area with strong economic growth potential in terms of new industries and new jobs.

If you find a region with a dynamic and forward looking Economic Development Office, you have just identified an area that has great potential for attracting employers. Their job is to sell the region to major employers, and if they understand this role, you will know by your first conversation with them. Discuss potential deals they're working on, look at their overall plan, and make sure they still have land they can develop to attract major employers.

If, on the other hand, while doing your due diligence and asking the key questions on your Property Goldmine Scorecard you feel you are constantly being blocked or even directly put-off by the local Economic Development Office, be wary. In most cases, they'll also be doing this to potential employers looking to locate into the town. You'd be surprised at the number of Economic Development Offices that act like Economic Deterrent Offices.

Once again, this effect works on a micro scale as well. For example, you can have two geographically well-positioned towns in your province. They can be the same size and the same distance from a major city, yet one always attracts the new jobs and investments, while the other continues to be the poor cousin. Each town has its own leadership and its own bylaws, and the progressive town attracts investment while the other loses it. In business, it is important to choose the environment where you have the best chance of succeeding.

Property taxes play a major role in an investor's cash flow. Similar properties in similar economies can cash flow significantly differently if one city's tax rate is higher than the other. This is often overlooked when assessing a region. In addition, a high tax rate on businesses (commercial and industrial) has a tendency over the long-term to push jobs away from the region, and therefore, put a higher burden on the residential tax base.

26. Areas of Revitalization

Areas of renewal provide tremendous opportunity for an educated investor. Transitional neighbourhoods often, if chosen correctly, have proven to provide the biggest bang for your investment dollars. Renewal areas are best defined as neighbourhoods which are moving up from one economic class to the next. These tend to be older areas that are rediscovered and redeveloped. Often these areas will be described as "tough yet funky," meaning that the neighbourhood has character, and with a little cleaning up will prove to be an amazing place to live.

You can identify these neighbourhoods quite easily. In renewal areas you'll witness a mixture of old run-down homes that have a lot of character, and houses that have recently been fixed up, along with new homes being built where older ones were torn down (in-fills). You may also witness older abandoned warehouses being converted to coveted loft apartments.

Pride of ownership will start to shine through - telling signs are window and patio boxes with flowers, new siding or paint on the houses, attractive fences, and well-maintained gardens.

As you keep an eye on an area of potential renewal you'll see it mentioned in the human interest stories on the news. Often, residents in transition areas say that they intend to kick out the prostitutes and drug dealers and make their neighbourhood one to be proud of again. In other words, they are taking back their neighbourhood.

Every city and most towns have areas like this; however, it is often the locals who are the last to discover them. Why? It's really rather simple. The locals have perceived beliefs and emotions regarding these areas. The local perception is the most difficult to change and often remains negative long after the transition has been completed. The local investors make the fatal investment mistake of letting their emotions rule their decisions; don't allow yourself to get caught up on past perception. The investor with no preconceived biases about the area can look at a property's transitional investment potential and base his or her investment decision on reality.

Key Insight: Look for areas undergoing renewal that are located near areas that have already gone through the revitalization process. Not only will the area be affected by its own renewal, it will also benefit from the ripple effect from the nearby community.

Caution: Refrain from being an investor pioneer into an area you believe is going to transition. Renewal areas have lots of long-term profit potential; however, know that you will often be buying in an area where there is a tougher tenant profile, meaning, skipped rents, damage, and lower than average rents. The revitalization will inevitably improve the area and the values will skyrocket but you will pay a premium for it with time and energy. Some property managers often refuse to work in some areas across the country because the headaches (and safety issues) don't make it worth their while.

27. Ripple Effect

With this driver, you will find that it is often much more profitable to surround the boom than invest right in the heart of it. To picture the Real Estate Ripple Effect, imagine you're standing at the side of a pond holding a large stone. Now throw this stone out as far as you can into the pond. There is an initial splash where the stone hits the water. Then, in a perfect circle around this initial splash, a large ripple flows outwards. Subsequently, outside of that ripple another ripple forms, this time a little smaller.

This phenomenon occurs the same way in the real estate market. When a specific area has a boom in prices, the real estate in the surrounding areas follows, but often not at the same rate as the initial splash area. You can use this factor to identify areas that are poised for a strong increase in values.

On the macro scale, for example, when a larger city has a boom, property values in areas surrounding it get pushed upwards in the following months and years. The value of the real estate in towns closest to the city increase at a rate slightly less than the main city and lags the city's value increases by about six months.

This also works on a micro scale. When a neighbourhood is redeveloped or goes through revitalization (which we'll talk more about later), the older untouched neighbourhoods near it also increase in value. A specific investment strategy is to look for these redeveloping areas and then purchase in areas surrounding them, where it is still possible to find good properties at great prices, before the positive boom hits the neighbourhood.

Bottom line*:* Look for cities, towns, and neighbourhoods where values are already increasing dramatically, or redevelopment is occurring. Then look outwards from there until you find an area that has not yet felt the impact of these changes.

28. What's Behind the Curtain – Locally, Regionally

The effect of confidence in real estate as an investment vehicle builds momentum over time. Confidence tends to be a reaction to the state of the real estate market but can influence the market by creating a perception upon which novice (or greedy) investors act, because they do not recognize (or respect) the long-term consequences of decisions based on this particular market influencer.

REIN's Property Goldmine Scorecard Checklist

REIN's Property Goldmine Scorecard – Checklist

Property Address: _______________________________ Date of Analysis: ___________

Key Drivers

Key drivers are market factors that propel the real estate market through the real estate cycle. They directly affect supply and demand.

GDP

☐ Is the area's **GDP** growing faster than the provincial/national average? ______%

Employment

☐ Is the area creating jobs faster than the provincial/national average?

☐ Is the area's average income increasing faster than provincial/national average? _______%

☐ Does the area have more than one major employer?

☐ Does the area have more than one major industry?

Population

☐ Is the area's population growing faster than the provincial/national average? ______%

☐ Is the area's population younger **(median age)** than the provincial/national average?

☐ Are there more first-time home buyers than the provincial/national average?

Housing Market

☐ Are real estate prices increasing?

☐ Are real estate listings decreasing?

☐ Are real estate sales volumes increasing?

☐ Is the number of days to sell real estate trending downward?

☐ Are the area's average rents higher than the provincial/national averages?

☐ Is the area's vacancy rate lower than the provincial/national average? _______%

☐ Is the area's Affordability Index in the Hot Zone? _______%
(Assuming a down payment of 20%, the monthly P&I payment should be 25 – 39% of the median family monthly income for a median priced bungalow)

☐ Is the housing construction start number lower than the historic average?

☐ Is the area's gross Return on Investment (ROI) (rental income/market price) higher than the provincial/national average? ____%

Market Influencers

Market influencers are factors that affect the perception of an impending change in the real estate cycle. They have a temporary impact on the market, so it is necessary to be aware of them, but not necessary to add them into your calculations.

Macro

- ☐ Is financing readily available? (lending climate)
- ☐ What is the current mortgage interest rate? ______%
- ☐ What is the inflation rate? ______ %
- ☐ Are foreign investors influencing the real estate market?
- ☐ Are alternative investments giving poorer returns than the real estate investment markets?
- ☐ Is public confidence in the real estate market favourable?

Micro

- ☐ Is the area's infrastructure being built to handle the expected growth?
  (Local town planning department. Look for expansion of water treatment, sewers, commercial and industrial space, hospitals, and schools).
- ☐ Is there a major transportation improvement occurring nearby?
  (Local town planning department, trains, planes and automobiles. Will the region become substantially more accessible with the transportation improvements? Don't say YES until you see construction beginning).
- ☐ Has the political leadership created a growth atmosphere?
  (On-line or city hall. Read the minutes of council meetings; speak with mayor or councilors to see whether the leadership is focused on bringing new jobs and growth to the area).
- ☐ Is the area's Economic Development Office helpful?
  (This is a key question. If the E.D.O. is difficult for you to deal with, you can often assume that they will be the same for potential employers looking to move into the region).
- ☐ Are property taxes lower than the provincial/national average?
- ☐ Is the licensing of rental properties pro-investor?
- ☐ Are there rent controls?
- ☐ Is it an area of revitalization or gentrification?
  (City Planning Department – Area Redevelopment Plan. Articles in media about taking back the neighbourhood, and increased pride of ownership).
- ☐ Is it in an area that is going to benefit from a Boom's Ripple Effect?
  (Visit surrounding towns and regions. Is a real estate boom occurring in the surrounding region outside where you're looking? If yes, this is a sign of a potential boom in your target area).

Neighbourhood Specific Information

Finding the answers to neighbourhood specific questions will often require an on-site visit. Never simply believe the person who is selling you a property to answer these important questions. Dig Deep.

- ☐ Is the zoning of the neighbourhood poised to change?
  (City Planning Department – Area Redevelopment Plan)
- ☐ Will the property value benefit from a new development nearby?
  (Visit surrounding neighbourhoods. Look for new or re-development projects).
- ☐ Is there a lot of speculative investment in the area?
  (Has a major announcement driven values upwards, is there an increased amount of investment money pouring in?)
- ☐ Are there amenities in the region that would attract your exit target buyer?
  (Before you buy, always think of who you will be selling to, to make sure the property will attract that person).
- ☐ Are there currently sales over list price in the area?
  (mls.ca or your realtor)
- ☐ Is the area experiencing a buyer's market?
- ☐ Are there more active listings than the five-year average?
- ☐ What is the tenant profile? ______________________________
- ☐ General observations of the neighbourhood and tenant profile.
  (Keep these notes as they will provide information for your final instinct check.
  Remember, you don't have to live there, your target tenant does).

____

____

____

____

____

____

____

Conclusion

Remember, REIN's Property Goldmine Scorecard is just the beginning of your market research and due diligence. It is designed to give you a very good overview of the property's potential. It is critical that you complete the remainder of your REIN's ACRE system, REIN's Property Ladder, REIN's Property Analyzer, and REIN's Diligence Checklist BEFORE you remove all your conditions on the purchase of an investment property.

Never skip a step and always do the extra 10% others aren't willing to do.

Step

7

Market Research:

When - REIN’s Real Estate Cycle

Secrets of the Canadian Real Estate Cycle: Chapter 2 Excerpt

The Phase Determines the Tactics

"In all things there is a law of cycles."
—Publius Cornelius Tacitus

The real estate cycle is the key to strategic investing. Understanding the cycle begins with a mindset that accepts the cycle's existence, and the fact that strategic investors can identify the specific phases within past and present real estate cycles. The more you invest in residential real estate, the more critical it becomes to sharpen your insight into the phases of the real estate cycle. This is essential to understanding why the real estate market reacts the way it does to certain conditions. It is fundamental to use the real estate cycle to govern your overall strategy, and to select investment tactics that are likely to produce the best results during specific phases of the cycle.

The real estate cycle is the term used to describe a succession of similar events that affect the real estate market on a cyclical basis. In Kieran Trass' book, *The Housing Bubble*, he defines the real estate cycle as "an irregular but recurrent and predictable succession of causes and effects that the real estate market experiences with resultant impacts on the creation and destruction of real estate wealth."

Key Drivers

While the progression of the phases of the real estate cycle is predictable, it is not an exact science. Strategic investors improve their predictions by studying what we call the key drivers of the cycle (key drivers are the subject of chapter four). Individual key drivers illuminate critical trends, especially when studied in combination with other key drivers.

The Trass methodology of studying real estate cycles explains that these key drivers tend to follow a regular pattern and reach peaks of activity at specific phases of the cycle. As a student of the real estate cycle, you will learn why and when these key drivers typically peak at different points in the cycle, as well as their resultant impact on the cycle.

Cycle Secret:
Key drivers are not crystal balls, but they do allow strategic investors insight into what lies ahead for their real estate investment fortunes.

There is hard evidence that the real estate cycle exists in all countries where supply and demand are driven by a free market that is combined with a deregulated financial system and an absence of intervention from political or government forces. The cycle is significantly different if a nation's economy is underdeveloped, or if its financial system is overly protected by regulation. In that case, market imbalance or volatility can interfere with the progress of what we would define as a natural real estate cycle, which moves from a boom phase to a slump phase to a recovery phase, and then back to a boom phase, ad infinitum.

The fact that a natural real estate cycle can be thrown off by political interference or financial regulation is important. Historically speaking, real estate price bubbles have occurred when countries have deregulated their finance industry in conjunction with having a favourable tax environment for real estate investment. The bubble ends when a significant correction in real estate values occurs. This was the case in many parts of Europe and the United States, as regulation of the financial industry was loosened over the last 15 years. That deregulation was a major contributor to the real estate bubble that formed, and ultimately popped, in Europe and the United States starting in 2006.

In contrast, Canada refused to loosen regulations over the same period of time. As a result, Canada has maintained relatively stable real estate values alongside a relatively healthy banking system.

The Three Phases of the Real Estate Cycle

Now that we understand the key drivers, we can look at the real estate cycle itself. There is a lot of confusion about the real estate cycle, much of it caused by sensational media reporting that gives rise to differing opinions as to whether real estate is a sound investment vehicle.

For now, the discussion about what the real estate cycle is must be separated from the discussion about when real estate investments present the most lucrative opportunities. At its simplest level, the real estate cycle is sometimes interpreted as a number of phases ranging from a real estate bust to a real estate boom. The historical performance of the real estate market cries out for a more sophisticated interpretation. In our view, that more advanced understanding of the cycle shows that it consists of three major phases: boom, slump and recovery. We use the illustration of the Real Estate Cycle Clock (illustrated in figure 2.1) to depict the phases of the real estate cycle.

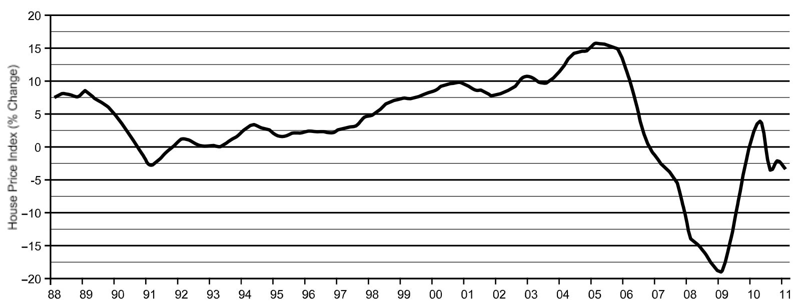
Figure 2.1: The Real Estate Cycle Clock

Again, the cycle holds whether you are investing in the United States, the United Kingdom, Ireland, Australia, New Zealand, South Africa, Canada, Europe, or even parts of Asia. Barring political or regulatory interference with the market or finance industry, the real estate cycle is always at play.

Cycles have been particularly evident since the mid - 1980s when financial deregulation occurred in many of these countries. Confusion over the predictability of the cycle arises when the real estate cycle is exaggerated and prolonged by the impact of sustained rises or declines in prices related to the supply or demand of real estate. Exaggerated or prolonged phases of the cycle most likely occur as a result of the greater momentum created by larger populations acting in specific markets.

Irrespective of a population's size, the real estate cycle can be volatile. This volatility can result in periods of time when real estate values rise and fall quickly (see graph 2.1). There have been periods when real estate values decreased to such an extent that a significant portion of the population had negative equity in their real estate (that is, when the owner owes more than the current value of the real estate). This situation occurred in the early 1990s in the UK. In 2011, this situation was clearly evident in the United States and in many other parts of the world. Again, it's fair to point out that political and financial interference contributed to exaggerations in the typical real estate cycle - which was still in motion.

Graph 2.1: U.S. House Price Index (% Change), 1988 – 2010



Source: S&P/Case Shiller YEAR

Moving Forward: Cycle Predictability

Our research indicates that the real estate cycle is predictable because it follows a basic pattern. This pattern was the subject of a book written over 80 years ago by the grandfather of the real estate cycle concept, Homer Hoyt. In 100 Years of Land Values in Chicago, written in 1933, Hoyt analyzes the movement of Chicago's land values, and notes that a recurrent succession of causes and effects impacted on these values during the hundred years from 1830 to 1930.

Hoyt concluded that a real estate cycle certainly existed, and he was the first to identify some of its consistent key drivers. Generally speaking, he noted that key drivers, such as population growth, often initially created increased demand for real estate. Increased demand was followed by a sharp rise in rents, which resulted in increased land values because of the greater financial returns available from buildings. Hoyt then observed significant increases in the construction of new buildings as a result of higher margins being achieved by construction firms. Finally, too much new construction produced an oversupply of real estate that eventually resulted in rent reductions and subsequent real estate price erosion. This pattern is still in evidence in real estate markets today, and is possibly even more apparent now, due to the ready availability and quality of statistical data.

The Cycle Is Predictable, Its Duration Is Not

Strategic real estate investors have often heard the phrase “But this time it’s different because ...” to justify why a current boom should last longer than a previous boom. They understand that the basic principles of the real estate cycle always remain the same, and many have used this knowledge to increase their financial net worth while minimizing their investment risks. The real estate cycle provides many telltale clues that clearly indicate what is in store for the real estate market.

Cycle Secret:
No doubt each new real estate cycle will bring new lessons, but the basic real estate cycle repeats the same pattern again and again because it is subject to a combination of key drivers that affect the supply and demand of real estate.

The following graphs show the distinct pattern of the real estate cycle in several countries from the mid - to late 1980s. They reveal varying degrees of real estate price growth, but the three stages of the real estate cycle can still be seen in each country.

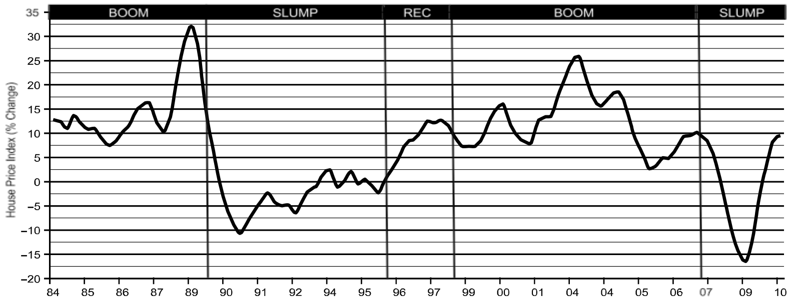
ALERT:
A review of these graphs shows that real estate values in the UK, Australia and Canada all experienced strong appreciation from 2009 to 2010, even though they were in the slump phase of their respective cycles. (In chapter 5, we will explain why these apparent “false booms” occurred in the midst of a slump.)

Some experienced investors reviewing these graphs may cry foul. They may recognize that one nation’s real estate cycle does not reflect what happened in their city or region during a particular time period, and they would be correct. These graphs represent national findings and may be out of sync with more local markets. Fear not. Our later discussion of key drivers will help you identify real estate cycle phases as well as market anomalies created by what we call market influencers (rather than key drivers) in your local market.

The graphs show that the most extreme house price growth is recorded in the UK (graph 2.2) and Australia (graph 2.3) during the late 1980s when house price inflation peaked in those countries at around 35 per cent per annum. Both of these countries then experienced a long slump phase. In contrast, the United States (graph 2.4) and Canada (graph 2.5) experienced a smaller rate of residential price growth (which peaked in the late 1980s), followed by a much shorter slump phase than what occurred in the UK and Australia.

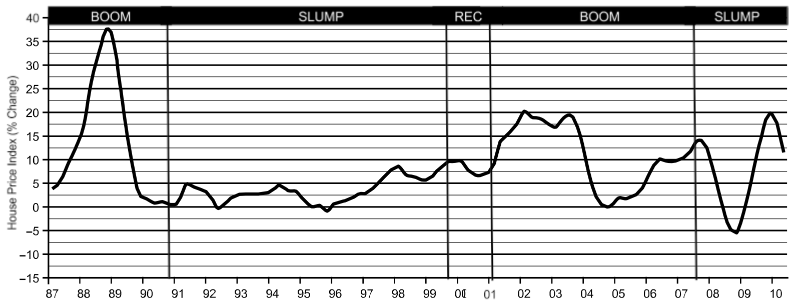
While the data are not sufficient to draw a strong conclusion, it appears that periods of very strong house price growth may well result in an extended slump phase. Moreover, while the duration of each phase may differ from cycle to cycle, strategic investors recognize a larger truth: the cycle itself does not change.

Graph 2.2: UK House Price Index (% Change), 1984 - 2010



Source: HBOS YEAR

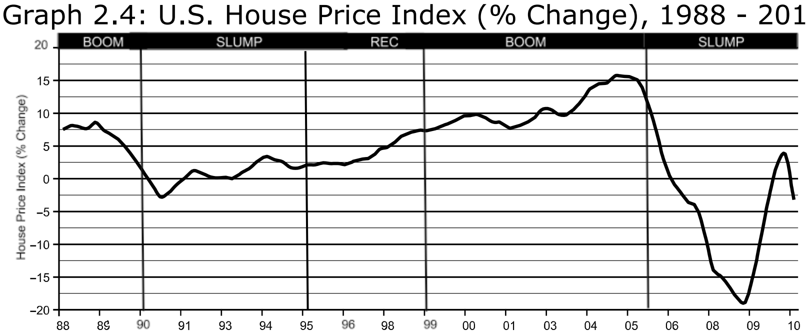
Graph 2.3: Australia House Price Index (% Change), 1987 - 2010



Source: Australian Bureau of Statistics

Year

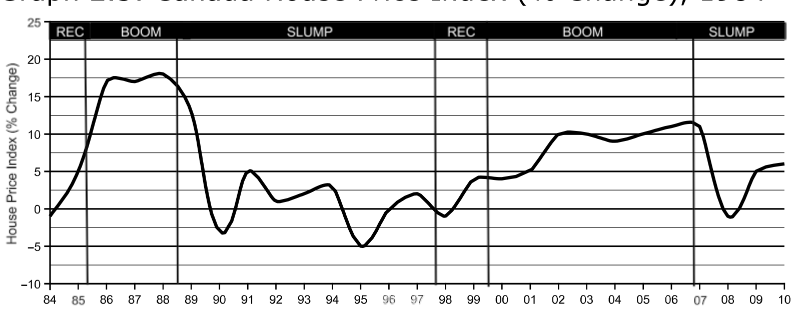
Graph 2.4: U.S. House Price Index (% Change), 1988 - 2010



Source: S&P/Case-Shiller

Year

Graph 2.5: Canada House Price Index (% Change), 1984 - 2010



Year

Source: CREB

Cycle Duration

While the duration of a complete real estate cycle has not proved to be consistent, it has typically lasted anywhere from seven to eighteen years. The longevity of each real estate cycle obviously varies depending on the state of the key drivers for each country. Smaller economies can experience faster cycles, and this may well be due to the increased volatility and limited inertia of the key drivers of the real estate cycle in those economies.

Real Estate Cycle Exceptions

As noted earlier, there are a few exceptions to the rules of the real estate cycle. First, some properties within a city or region may continue to command a premium irrespective of what is happening in the real estate cycle of a nation. These properties are likely to have some sort of serious “X factor.” Perhaps they have historical significance or a combination of uniquely superior attributes. Speaking in terms of real estate investment fundamentals, these are likely to be the best properties situated in the best locations on the best streets in the best neighbourhoods of a city. Whatever the reason, these properties (and the investment deals that involve them) are largely immune to the phases of the real estate cycle.

Another exception involves the emergence of specific localized hot spots. Regardless of the real estate cycle phase a nation, region, or city may find itself in, these hot spots can defy the real estate cycle’s impact on prices in the region in which they are situated. These hot spots emerge for a number of reasons, including the rezoning of land to allow more population-intensive developments to be constructed (therefore effectively increasing land values), or proximity to significant new projects planned for an area. Such new projects can include new infrastructure resulting in the creation of numerous employment opportunities, major transportation improvements like light rail rapid transit development, or a significant increase in the level of public amenities available. But strategic investors should be forewarned: these hot spots will eventually be subject to the real estate cycle because they will reach a level relative to surrounding or similar locations.

Exceptions to the cycle can also emerge as a result of culture shifts driven by lifestyle demands. The impact on real estate values can be positive, negative or both. One example of a culture shift is when baby boomers seek new lifestyle opportunities or abandon previous lifestyles. This could increase real estate values in favoured new life-style locations and reduce real estate values in former hot-spot locations. Again, such exceptions to the real estate cycle will eventually complete their adjustment to the culture shift and will then follow the real estate cycle once again.

Cycle Secret:
Hot and cold spots that appear to defy a real estate cycle typically emerge due to abnormal levels of demand created by a financially empowered or disempowered niche group. They are anomalies that often look like extreme examples of a larger region’s position in the real estate cycle.

Statistics and the Real Estate Cycle

Real estate investment is a numbers game, and no discussion of the real estate cycle could be complete without a review of how real estate related statistics are reported and how we need to view them in order to better understand which phase the cycle is in.

As strategic real estate investors, we want reality, not fiction. That is problematic because most real estate statistics are presented in way that serves a predetermined purpose or that lacks context. And make no mistake: the strategic investor needs to take a hard look at the numbers. We want to make sure we understand what they tell us. We seek context.

A case in point - What do the numbers really say?

After real estate values in the Greater Toronto Area (GTA) fell for three consecutive months in 2010, the headline of the Toronto Real Estate Board's monthly market update report read: August Sales and New Listings Down, Prices Up.
If prices had fallen for three consecutive months, how could the board report that prices were up? The board simply used statistics to its advantage and compared the prices against those of a year earlier. Based on this year-over-year view, average prices in the GTA were up 6 per cent; however, compared to the previous month they were down 2.3 per cent. In fact, prices had fallen a total of 8.2 per cent over the previous three months.

In another example, the global economic crisis in 2009 saw previously escalating real estate values come to a grinding halt. In 2010 there was a need for more consumer confidence in the market. Many stand-alone statistics, such as the following headline, were showing huge upswings and were being displayed as signs of economic recovery.

EDMONTON JULY HOUSING STARTS UP 123% FROM '09 CITY LEADS ALBERTA IN RECOVERY FROM BUILDING SLUMP

Was this statistic wrong? Technically, no. But strategic investors should have recognized that the data were being compared against a time when new housing starts had literally stopped. In both of these examples, "point-in-time" statistics were used that didn't give any context as to the current values in Toronto or housing starts in Edmonton, nor what trend they might take. In both cases, a trend would have been required in order to understand the reality behind each headline.

Measuring Real Estate Values: Averages Don't Matter

Another area of confusion with real estate statistics concerns the way values are measured. Real estate values are measured in various ways throughout the world, including by averages, medians, and varying forms of indexes. Some of these measurements produce an inaccurate indication of what is actually happening to real estate values.

It is surprising how often less reliable data, such as averages or median sales prices, are quoted as a representation of what's happening in a real estate market. These figures can easily present a distorted view. For example, when there is a disproportionately high level of sales activity of superior real estate in an area in a given period, it may appear that values in that area are increasing purely because the average and/or median price will look higher than it had previously. Prices for such "superior" real estate may have actually decreased, but this may not be represented by the average or median figures.

Conversely, such a period may be followed by a high level of sales activity of inferior or lower-priced real estate in the same area. That may seem to indicate that values in the area are decreasing purely because the average and median sales prices are lower. In reality, that period may have been characterized by few sales of superior real estate, so while the average and median figures indicate that values are declining, they may actually be increasing.

To obtain more accurate information on real estate value trends, we suggest using one of two methods.

1. **Indexes:** Indexes that are calculated from repeat sales of similar single-family homes, such as the S&P/Case-Shiller Home Price Indices used in the United States, are considered by many economists to be the most accurate way to represent a market's overall real estate value. Until 2008, Canada was without a nationally recognized house price index. Fortunately, Teranet, in alliance with the National Bank of Canada, created an index that dates back to 1999 for the metropolitan areas of Vancouver, Calgary, Toronto, Ottawa, Montreal, and Halifax.

2. **Moving Average:** Using the average Multiple Listing Service (MLS) prices reported monthly, economists calculate and trend the 12-month moving average. The 12-month moving average helps normalize the data and remove the month-to-month volatility described above.

Cycle Secret:
Real estate statistics must be continually monitored in the context of their long-term trends. Point-in-time statistics only confuse and mislead.

Chapter Summary Put the Cycle Secrets to Work

The real estate cycle is an irregular but recurrent and predictable succession of causes and effects that the real estate market experiences, with resultant impacts on the creation and destruction of real estate wealth.

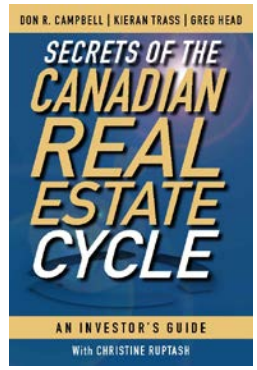
The cycle moves through three phases: boom, slump, and recovery. Market influencers may contribute to its progress, or to temporary aberrations. Key drivers, on the other hand, always propel the cycle forward through predictable patterns. The duration of the phases changes depending on key drivers.

Efforts to interpret point-in-time statistics during any phase of the real estate cycle are complicated by a lack of context. The end result is statistics with little meaning, resulting in confusion. Strategic investors in pursuit of reality avoid this confusion by using key drivers to track the real estate cycle. They know the cycle is predictable in terms of its progress, and unpredictable in terms of its duration. That does not distract them from informed action based on what the key drivers tell them to do.

You can learn more in
Secrets of the Canadian Real Estate Cycle.

Learn to become a strategic real estate investor and profit in any market.

Don R. Campbell and Greg Head are proud to donate all royalties earned from the sale of this book to Habitat for Humanity.



REIN's Real Estate Cycle Strategies

Chapter 14, *Secrets of the Canadian Real Estate Cycle*

A - Adjust for the slump

Adjusting your portfolio for the slump is critical. If you fail to adjust you may not have a portfolio left by the end of the slump. Fortunately, the boom provides strategic investors with an abundance of adjustment opportunities.

B - Build for the Recovery

During the slump, while fear of investing in real estate is at its peak, strategic investors take the contrarian approach and build their portfolios for the impending recovery and boom.

C - Capitalize on the Boom

If you adjust for the slump and continue to build through to the recovery, you are significantly increasing your odds of capitalizing on the boom. Unfortunately, many investors start to invest during the boom and expect to reap the rewards of this lucrative phase indefinitely. The impending slump turns them into one-phase investors.

REIN's Real Estate Cycle

The real estate cycle is the key to strategic investing. Understanding the cycle begins with a mindset that accepts the cycle's existence and the fact that strategic investors can identify the specific phases within past and present real estate cycles. The more you invest in residential real estate, the more critical it becomes to sharpen your insight into the phases of the real estate cycle. This is essential to understanding why the real estate market reacts the way it does to certain conditions. It is fundamental to use the real estate cycle to govern your overall strategy and to select investment tactics that are likely to produce the best results during specific phases of the cycle.

The real estate cycle is the term used to describe a succession of similar events that affect the real estate market on a cyclical basis. In Kieran Trass' book *The Housing Bubble*, he defines the real estate cycle as "an irregular but recurrent and predictable succession of causes and effects that the real estate market experiences with resultant impacts on the creation and destruction of real estate wealth."

Boom

Overview

- Economic confidence rises
- Consumer spending rises
- Interest in real estate investment soars

Cycle Secrets:

- Uninformed speculators typically overestimate real estate values at the end stage of the boom
- Many people believe the boom will last longer than realistic

Slump

Overview

- Like a forest fire, to restore fundamental value of real estate and set the stage for a new cycle of growth

Cycle Secret:

- It is the optimum time to buy
- Many people believe the slump will last forever

Recovery

Overview

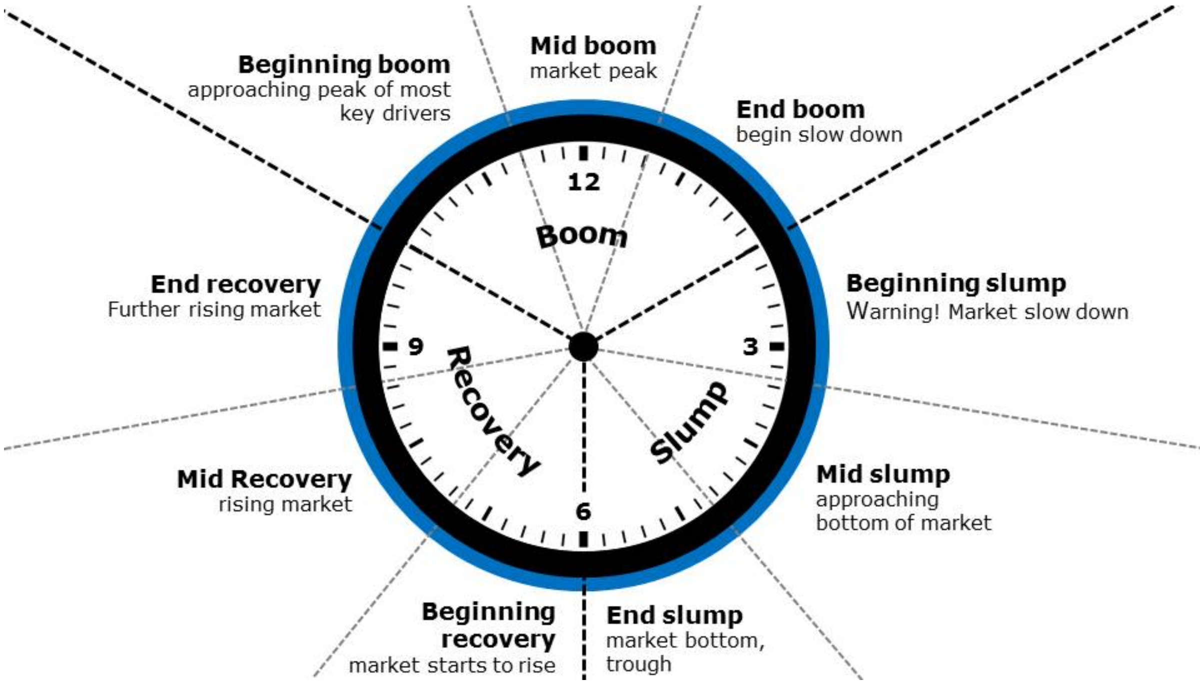
- Not easily recognized by non-strategic investors
- Duration is not predictable
- Many people mistake recovery phase for boom phase
- Sharp increase in real estate values
- Subtle in its arrival, like a sunrise

Cycle Secret:

- Many real estate market observers mistakenly identify the beginning of the recovery phase with a real estate boom

Real Estate Cycle Clock:

Apply REIN's Real Estate Cycle Scorecard Clock to identify what stage of the cycle the local market is in.



REIN’s Real Estate Cycle Scorecard

It is fundamental to use the real estate cycle to govern your overall strategy and to select investment tactics that are likely to produce the best results during specific phases of the cycle.

Once you understand the economic fundamental key drivers of a town, apply REIN’s Real Estate Cycle Scorecard, based on the methodology outlined in the *Secrets of the Canadian Real Estate Cycle*, to identify what stage of the real estate market these towns are in: recovery, boom, or slump.

Key Drivers	**Current Trend**	**Recovery**			**Boom**			**Slump**		
		Beg.	Middle	End	Beg.	Middle	End	Beg.	Middle	End
DEMOGRAPHIC										
Net migration		+	+	+	+	P	-	-	T	+
Vacancy rates		-	-	-	-	-	T	+	P	-
Employment		+	+	+	+	+	P	-	-	T
Housing construction		+	+	+	+	+	P	-	-	T
First-time homebuyers		+	+	+	+	P	-	-	-	T
FINANCIAL										
Real estate ROI		+	P	-	-	-	-	-	T	+
Rents		+	+	+	+	P	-	-	-	T
Incomes		+	+	+	+	+	P	-	-	T
Real estate finance availability		+	+	+	+	+	P	-	-	T
GDP		+	+	+	P	-	-	-	T	+
Real estate values		+	+	+	+	+	+	P	-	T
Real estate affordability		T	+	+	+	+	+	P	-	-
EMOTIONAL										
No. of days to sell real estate		-	-	-	-	-	T	+	+	P
Revitalization		T	+	+	+	+	P	-	-	-
Real estate listings		-	-	-	-	T	+	+	+	P
Real estate sales		+	+	+	+	+	P	-	-	T
TOTAL MATCHES										

Key

P	Peak, when a key driver is at its highest point, just before it begins to decline
T	Trough, when a key driver is at its lowest point, just before it begins to rise
+	Increase in key driver
-	Decrease in key driver
ROI	Return on investment

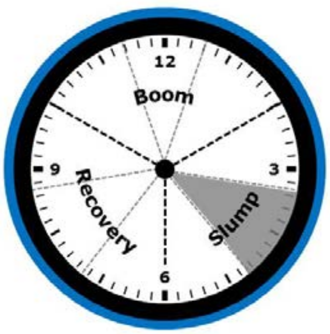
Page 269, *The Secrets of the Canadian Real Estate Cycle*

The Real Estate Cycle Scorecard – Case study

Key Drivers	Current Trend	Recovery Beg.	Recovery Middle	Recovery End	Boom Beg.	Boom Middle	Boom End	Slump Beg.	Slump Middle	Slump End
DEMOGRAPHIC										
Net migration	T	X	X	X	X	X	X	X	✓	X
Vacancy rates	+	X	X	X	X	X	X	✓	X	X
Employment	-	X	X	X	X	X	X	✓	✓	X
Housing Construction	T	X	X	X	X	X	X	X	X	✓
First-time homebuyers	-	X	X	X	X	X	✓	✓	✓	X
FINANCIAL										
Real estate ROI	T	X	X	X	X	X	X	X	✓	X
Rents	-	X	X	X	X	X	✓	✓	✓	X
Incomes	T	X	X	X	X	X	X	X	X	✓
Real estate finance availability	-	X	X	X	X	X	X	✓	✓	X
GDP	+	✓	✓	✓	X	X	X	X	X	✓
Real estate values	-	X	X	X	X	X	X	X	✓	✓
Real estate affordability	+	X	✓	✓	✓	✓	✓	X	X	X
EMOTIONAL										
No. of days to sell real estate	+	X	X	X	X	X	X	✓	✓	X
Revitalization	+	X	✓	✓	✓	✓	X	X	X	X
Real estate listings	-	✓	✓	✓	✓	X	X	X	X	X
Real estate sales	+	✓	✓	✓	✓	✓	X	X	X	X
TOTAL MATCHES		3	5	5	4	3	3	6	8	4

Current Phase of Cycle (total matches):

- Slump
  - Middle



Real Estate Cycle Investment Tactics

Tactic	Recovery Beginning	Recovery Middle	Recovery End	Boom Beginning	Boom Middle	Boom End	Slump Beginning	Slump Middle	Slump End
Buy and Hold	Good	Good	Good	Possible	Tricky	Avoid	Possible	Good	Optimal
Rent to Own	Good	Optimal	Tricky	Good	Tricky	Avoid	Tricky	Possible	Good
Fix and Flip	Possible	Good	Good	Optimal	Good	Tricky	Avoid	Tricky	Possible

Good Tactic:

- Buy and Hold

For insights into all the tactics

Read chapter 15 in *Secrets of the Canadian Real Estate Cycle* to learn more about why each specific tactic works best at different times in the real estate cycle.

Learn about the following:

- Buy and Hold
- Rent to Own
- Fix and Flip

Step

8

Real Estate Tactics

Real Estate Tactics: Creative Investing Strategies

Agreements: An Overview

As we all know, across Canada, mortgages are impossible to assume without first qualifying for the mortgage. An Agreement for Sale (AFS), often called a 'Right to Purchase' in BC, is a way to buy property with seller financing that takes care of non-assumable mortgages.

History of the AFS in Canada:

This way of financing a purchase was previously much better known. Historically, banks would not give anyone a mortgage unless they had a 50% down payment! Down payments this large are very difficult to accumulate. This meant a huge segment of the buying public was excluded from the home-owning marketplace. Sellers had an extremely limited number of buyers because, of course, most buyers could never save a 50% down payment.

In fact, within living memory, the majority of purchases and sales in Canada were done by way of Agreement for Sale or Vendor Take-back Mortgage (VTB). Then, in 1946 to assist returning WWII veterans, the federal government decided that more people should own houses. They brought in a law called the National Housing Act, creating the Canada Mortgage and Housing Corporation (CMHC) to act as an insurer for the lenders. If a loan went bad, a lender could now make a claim against CMHC for any of their losses. This made lenders happy. Now, lenders can lend up to 80% of the purchase price or up to 95% if the mortgage is insured by CMHC or another insurer.

That kind of financing was a vast improvement on the 50% down scenario. Agreements for Sale became the forgotten financing tool. But, with the economic downturn and better investor education, Agreements for Sale are making a comeback. They can be useful whether you are buying or selling.

The Agreement for Sale Contract:

You can buy a property or sell a property, and here is the correct terminology: by way of agreement for sale. In either case, a contract of purchase and sale (often called the offer or offer to purchase) is submitted to the other party and the offer clearly says that the transaction is proceeding, by way of agreement for sale. The buyer pays a certain amount of the purchase price by cash and the balance is owed to the seller under a financing structure known as an unpaid seller's equity.

PROPERTY ADDRESS PAGE 2 of PAGES

3. **TERMS AND CONDITIONS:** The purchase and sale of the Property includes the following terms and is subject to the following conditions:

This purchase is by way of Agreement For Sale (Right to Purchase). See Financing Schedule for details.

Each condition, if so indicated, is for the sole benefit of the party indicated. Unless each condition is waived or declared fulfilled by written notice given by the benefiting party to the other party on or before the date specified for each condition, this Contract will be terminated thereupon and the Deposit returnable in accordance with the *Real Estate Services Act*.

For example, if you were selling a home for $550,000, $525,000 fair market value (FMV). If the Buyer had a deposit of $20,000, then the numbers would look like this:

Purchase Price		$550,000
Deposit	$20,000	
By way of Unpaid Seller's Equity	$530,000	
	$550,000	$550,000

Remember, this agreement does not absolve the seller from making the usual mortgage payments. The buyer makes payments to the seller under the Agreement for Sale. If you have an existing mortgage of, for example, $125,000 at 2.99% interest, you must continue to make payments to your lender.

When selling or buying we recommend you use the standard contract of purchase and sale from your local real estate association with AFS Financing Schedule attached.

Remember, any contract of purchase and sale must say that the sale is by way of Agreement for Sale or sometimes called a Right to Purchase sale in BC.

Your profit in the deal comes from charging a margin on the sales price and/or on the interest rate. In our example above you are charging $550,000 for a house with a FMV of $525,000, for a $25,000 profit margin, and you are charging a very reasonable 6% on your $530,000 unpaid Sellers equity but only paying 2.99% on your existing $125,000 conventional mortgage with a lender.

NOTE: if there is an existing mortgage, you usually want the term of low equity/no equity AFS to match up with the term of the existing mortgage. That way, when your mortgage is due, the AFS is also due and you and the seller avoid mortgage payout penalties. Your AFS should have a clause that allows for and leaves you in control of a renewal of the AFS that is tied to a renewal of the existing mortgage.

Why An AFS Is Different:

I can hear the wheels turning. "What's the big deal? Isn't this just like an assumption of a mortgage?" Here is the key to the magic of the AFS. The Seller lends you money and title remains in the seller's name! The seller continues to make his mortgage payments to his bank. Their records don't change.

Why an AFS is Attractive to The Investor Seller:

If you are an investor with property to sell, who is your target market? It may be more than those buyers with lots of money for big down payments and the ability to qualify or assume any mortgage. What about those less financially fortunate buyers? What stops buyers from being able to buy and why would they need you?

For any buyer interested in a new home, the most common financing possibilities, and the problems buyers face, are as follows:

1. Buyer needs a new mortgage. The difficulty here is that many buyers simply cannot qualify for any kind of bank financing. Banks use various policies and economic formulas to assess the risk of new buyers. If they don't fit the policies or are self-employed, they will have a difficult time getting a new mortgage. You replace the lender. Ron LeGrand, a notable real estate guru, says you only have to ask two questions: Does your buyer have a solid down payment? Are they capable of making that monthly payment to you as required by the AFS? If the answer to both questions is yes then, according to Ron, they are qualified. You may have lots of other valid questions so don't hesitate to do all the diligence you think is required. Ron says these two questions are obviously the most important questions but are just the basics.
2. Buyers, with very few exceptions, cannot assume mortgages without qualifying. Even if a buyer could qualify, for many buyers, this only works if the cash portion of the purchase is low compared to the mortgage being assumed. If a Seller has paid down his mortgage over the course of time, and property values have risen, the cash part of the purchase is simply too great.
3. In a normal market an AFS transaction allows a conservative seller investor to achieve a greater degree of certainty about the returns to expect from a property investment since the capital appreciation is locked in at the time the AFS is signed. Of course, when properties rapidly rise or fall in value you might miss substantial equity appreciation or, in fact, lock in a huge gain.
4. Another advantage of an AFS over a normal buy and hold strategy is that your buyer is now responsible for all the normal ownership costs (such as property taxes, insurance, repairs etc.). You don't have property management fees.
5. Another major attraction about the AFS strategy is that it eliminates the possibility of long vacancies since the property is now someone else's.

In summary, an AFS allows the investor to eliminate much of the risk, cost, and effort of a normal buy and hold technique. An Agreement for Sale gives the investor/seller a great financing alternative.

Why An AFS Is Attractive To The Investor Buyer:

Many investor buyers used to assume mortgages without having to qualify. Lots of sellers didn't mind if buyers assumed their mortgages. Often, they didn't mind even if the seller had a CMHC mortgage where, after selling, they were still responsible on the personal covenant in the mortgage if their buyer defaulted. They still let buyers assume in many cases. Now mortgage assumptions are, for all practical purposes, off the table. That still leaves sellers with mortgages who want to sell.

Let's look at some examples:

1. The seller has negative equity. They bought at the height of the boom. Prices have fallen. Their high ratio mortgage now has a principal balance larger than the fair market value of the home. They can't sell it with a realtor because real estate fees will take up $10,000 plus dollars that they don't have. Remember this is negative equity. Even if they do sell chances are their mortgage is closed and paying it out would trigger a large payout penalty. Think of the negotiating possibilities for you as investor buyer under this scenario.
2. The seller has positive equity but not too much. His real estate commission and pay out penalties could easily chew up $20,000. If the seller calls your hotline he might be happy to hear how you can save him money.
3. The seller has positive equity, but he doesn't need his money. Let's be realistic. Most sellers need the money from their sale but some don't. You can show the seller how to potentially save thousands of dollars in real estate commission and payout penalties, earn a better return on his equity than he could in the bank, and, if the seller is also an investor, to defer profit on his taxable gain.
4. Buyer, (you), now controls the property. This is powerful! With a properly negotiated and drafted contract of purchase and sale and AFS you can:
    a. assign your interest in the AFS, in other words sell your contract, or;
    b. lease-option the property to a tenant buyer, or;
    c. sell an option without a lease, or;
    d. make a straightforward sale at a profit to another buyer, or;
    e. sell to another buyer where you get some money now and some secured by way of a second subordinated agreement for sale, or perhaps, secured by a promissory note that charges your buyer's beneficial interest in the property. Big warning! I haven't ever been involved in or even seen this last scenario, but if you have an interest in a property, as long as you are not contractually prohibited from doing so, you can usually sell your interest and find a way to secure it.

An AFS can work well for the above examples. Plus, sellers usually love that title remains in their name.

5. **Helpful Hint:** Always try to buy a property by way of AFS where there is at least $20,000 equity that you don't pay for. Sellers who have to sell will often gladly give up this $20,000 if they don't have to pay real estate commissions and payout penalties, and because you are solving their problem. This will protect you against further drops in the value of the property.

Comments on Potential Tax Treatment:

If you make a profit on your AFS, there will be some tax to pay. Your profit might be taxed as income or as a capital gain. Everyone's situation is different; make sure you maximize your tax position. Interest paid is usually assessable in the tax year the interest is received. Profit may be set up as a reserve and taken into account over a number of years. We believe the CRA will say it is similar to the way they tax the profit contained in a VTB. We are not tax experts. Always get professional tax advice, preferably from a tax specialist.

Summary:

Agreements for Sale are a valid investment strategy which, when properly implemented, will be very profitable.

As always, your best result can be expected through thoroughly educating yourself, comprehensive due diligence, and finding a motivated, financially responsible buyer. If you have any questions or comments, then please contact your local creative and friendly real estate lawyer. We would be absolutely delighted to assist you.

Rent-to-Own: An Overview

Rent-to-own (RTO and often interchangeably called lease-option) is a two-part strategy. You start with a lease (the rent part) and add an option to purchase (the own part). In a rent-to-own scenario, the renter is, for some reason, unable to finance at the moment. Examples of financing problems are: bad credit, not enough down payment, self-employed, new job, newly divorced, or new Canadian. Yet, they want to make the transition toward homeownership immediately, usually for personal or emotional reasons.

Typically, the tenants are looking to stop renting and finally move into a place they can call their own. They don't want to continue bouncing from rental to rental, and are looking to settle down once and for all. Rent-to-own is a great win-win strategy; you're helping renters become homeowners. These deals can be extremely profitable, while helping everyone involved in a truly powerful way.

Why Choose A Rent-to-Own Strategy?

Whenever the real estate market takes off, stores are flooded with books, CD’s and courses promising to make you rich. During times of economic crisis, investors are shown ways to become rich from investing in foreclosed property. Very few find great financial success using any of these concepts. Most are not so lucky.

The difference between these "bandwagon" strategies and rent-to-own is that rent-to-own will work in any market. No matter the year or economic situation as you read this, it's a great time to get started in rent-to-own. This strategy will ensure that, regardless of what happens with the economy in the future, you will thrive.

We will show you how rent-to-own is a proven real estate investment strategy that will allow you to gain positive monthly cash flow in any market. You will enjoy an appreciation gain at the end of the investment, while having a clearly mapped exit strategy right from the start. These three aspects alone (positive monthly cash flow, appreciation, and an exit strategy) will ensure success when using the rent-to-own strategy.

Rent-to-Own Strategies

Tenant-First Strategy

The Tenant-First strategy is pretty straightforward and our preference. First you find and qualify a tenant. Then they find their own Rent-To-Own home. This strategy ensures they are emotionally invested in the property because they have chosen it. You also know right off the bat there is a great chance that you have reliable and loyal tenants who will maintain the house and keep the payments coming without fail.

How do you know? Because you're giving them the opportunity to own their dream home. With a committed rent-to-own tenant in place, there's no need to worry about a property being unoccupied, leaving you with no monthly cash flow. It’s a logical progression.

Find the tenant, find the property, buy the property, help with credit issues, you exit when the tenant qualifies for the mortgage. Repeat. Save yourself carrying costs, uncertainty and a lot of unnecessary stress and hassle.

Property First

The property-first strategy is simply where you lease-option a property you have owned for some time to a tenant buyer, or you purchase a property with the intent to lease-option. This is a good strategy to use when the market is soft and you are having trouble selling. This strategy is more challenging because already owned or newly purchased, the tenant buyer has only your home to choose from instead of the whole MLS market.

Sandwich Lease

This is a version of the property-first strategy. You lease a property from the current owner with an option to buy and the right to assign your lease. Then you turn around and rent the property out to someone else granting them an option to buy. Their rent and purchase price are both higher than yours.

A sandwich lease may seem a bit complicated at first. However, when it does work, it's a great way to invest in real estate without much cash. It works best where your lease is for less than market rent and your tenant buyer pays market rent or more. This is not our first choice of strategies, simply because when you have this many parties involved, the chance of things going sideways is greater.

Important Legal Point:

What legal documents do you need? You should work with your own lawyer to put together a package of documentation for lease options that your lawyer thinks will work and that both you and your lawyer are comfortable with. We provide examples of lease-option documents. It is up to you to understand these documents and make them work for you. Our general comments on the legal documents are as follows:

1. Lease
   Every one of you has leased a property at one time, either as a tenant, or because you are now an owner and you lease to your tenants. You are familiar with leases. If you like your own lease, use that lease. Or, ask your lawyer to draft a lease.

   If available, it is even easier to use a standard lease approved by your Province's Residential Tenancy Branch, known as a Residential Tenancy Agreement. Most standard lease agreements allow for amendments, just make sure you comply with the *Tenancy Act*. This is important, you need a solid lease to protect yourself as a landlord.

2. Option
   Options come in all shapes and sizes. Some are long and some are short but one thing they all must be is, precise. Options are, as the legal cases say, "strictly construed." This means if there's ever an argument, there won't be much legal interpretation by a judge. He will take the plain meaning of the document. If you drafted the option and there is an argument about what a particular clause means, the court will find against you. Make sure your option says what you want to say.

3. Contract of Purchase and Sale
   We spoke about the contract of purchase and sale above. Please re-read that

section to decide how you want to deal with the question of whether or not to incorporate a contract of purchase and sale as part of your lease-option package.

4. Certificate of Independent Legal Advice (CILA)
   Here are a couple of scenarios. Your tenant is in default under the lease and the option is about to expire. You want to evict him. However, because of the boom, the property is up $100,000 in value. The tenant sees his equity disappearing. He goes to court and argues that he is a buyer with equity, not a defaulting tenant with an expiring option.

   Or, your tenant signed the lease option at the height of the boom and paid you $25,000 in option money. The property value has dropped by $100,000, the tenant will never exercise the option and he argues he should get his option money back. In either case you are the bad investor taking advantage of the poor tenant. Consider a condition forcing the tenant to go see a competent real estate lawyer to have the lease-option explained. Don't close the deal unless there is a CILA where the tenant acknowledges that he is a tenant with an option to purchase not a buyer under some version of a deferred purchase plan.

   This is very important as the courts treat a buyer very differently than they treat a tenant. Your call on whether you want to get a CILA signed. Of course you won't need it until you're in court.

Important Success Point:

This may be the most important point of all. Success in a lease-option program is more than the legal paperwork. It is absolutely all about working extremely hard to understand and implement your lease-option program. Success in any new program or strategy is a lot of hard work accomplished over a lengthy period of time with lots of ups and downs. It doesn't happen overnight. Malcolm Gladwell, in his best-selling book, *Outliers*, says that the people who are at the very top of their skill and profession take approximately 10,000 hours to get there. Although this won’t take 10,000 hours, it takes time to get good at anything and lease-options are no exception.

Once you find a motivated seller or tenant and you negotiate a win-win deal, generally, the legal paperwork follows along nicely. When everyone is happy, and the deal is truly a win-win, you can have short options or long options, combined lease-options or separate documentation, get a CILA or not, and it all works out. Yes, you need great legal paperwork but you should be spending more of your time on understanding the details and making sure your strategy is win-win.

Conclusion:

The rent-to-own concept is fundamentally simple. The trick is to understand how the program works, find, and then negotiate successfully with motivated tenant buyers. For sandwich leases, if you can find properties with reasonable spreads and motivated sellers, then you should be able to find tenant-buyers and complete the loop.

Remember how difficult it was purchasing your first investment property; this is no different. You must get out there and get going. Don't skip steps and then complain that the strategy didn't work. Talk to other investors who have successfully implemented creative quick-turn strategies.

Assignments: An Overview

An assignment is an agreement that transfers your contractual rights to a third party.

A contract of assignment, usually just called an assignment, is useful in any real estate market. Here's how they work. You write a contract of purchase and sale offering to purchase a piece of property and the seller accepts your offer. This gives you control of that piece of property. You can then sell your interest in the property by way of an assignment before or after you go unconditional on the purchase contract. The assignment contract itself is usually just a page or two but it's important. It sets out the parties, timing, each party's money, and other details in writing.

Assignments are useful and popular, especially in a rising market or where there is a large gap between purchase price and After Repair Value (ARV).

Caution: assignments are a sophisticated investor strategy. Don't dive into these without some initial real estate experience.

Points To Remember:

1. Contracts where you might want to assign used to be written showing the buyer as "John Jones or Assignee," or perhaps "John Jones or Nominee." With the rise in mortgage fraud, lenders and title insurance companies don't particularly like assigned contracts. You are better off showing just your name as the buyer. Then, in the terms section of your contract, you add some extra words. Those words are, "buyer reserves the right to unilaterally amend buyer's name."

   I also like additional disclosure words that are very helpful. You can add these disclosure words to section three or put them in a separate schedule/addendum, "Buyer discloses to seller that buyer may move into the property, rent out to tenants, or sell at a profit to a third party before or after closing. Seller will, in all respects, cooperate with buyer to facilitate sale to a third-party buyer".

   Why do these words make a difference? Firstly, with this term(s) in the contract, if you want to assign the contract or joint venture you have the right to do it on your own. You don't have to go asking the seller "pretty please." Secondly, it appears that while lenders don't like assignments, they are very familiar with amendments to contracts and, if the buyer's name changes by way of amendment, they are okay with that. Thirdly, disclosure protects you and requires the seller to cooperate with you in a third party sale.
2. When you write a purchase contract in this manner you have flexibility. You may choose to close for yourself and add the property to your rental portfolio. Or, the assignment clause gives you the right to change the buyer's name to facilitate a cash assignment or the sale to a third party.

3. Lenders finance on the lower of either the price in the purchase contract or the appraised value. If you have a purchase contract with a seller for $300,000, and you assign the contract to the ultimate purchaser for $10,000 then the ultimate purchaser is paying $310,000. Based on the rule above, the lender will only finance on the basis of $300,000. Lenders also don't like it if the seller to the

ultimate buyer is not the name of the owner on title. How can you organize it so your ultimate buyer will get financing based on all the dollars he has paid and have a contract the lender can live with? Remember, full disclosure to your lender/broker.

4. You may have to go back to your seller and explain the situation to them. What you need is a new purchase contract written between the current owner and the ultimate buyer for the ultimate buyer's price. This is where the words in clause three come in. They say to the seller that you might buy the property and move in yourself, you might rent it out or you might sell the property to somebody else.

   The schedule says that whatever you do, the seller will cooperate with you to facilitate a sale to your ultimate buyer. Replacing one contract with another can be a little tricky so get help from your lawyer on the type of wording, or perhaps, a schedule to use to replace one contract with another.

Summary:

1. Assignments take a good chunk of the time available for closing. They often turn normal deals into rush deals.
2. As an assignor, you continue to remain liable even after you have assigned.
3. Make sure your assignee acknowledges in writing what you have told them about the diligence you have done.
4. Give your lawyer, lender, and realtor lots of detail as early as you can.
5. The assignment concept is deceptively simple. There are lots of other issues. Always get legal advice before you start using assignments, including the form of assignment you will use.

What specific things can you do?

1. Finalize your assignment before the deal goes unconditional. If you are using a realtor, make sure they know. If it's a private sale, make sure the seller knows.
2. Amend the contract, in writing, to show that there is a new buyer. You can use various forms: An amendment, an addendum, or a schedule; they all will accomplish the same thing. What words do you use? The following words could be used in the amendment:
   a. "this contract is amended to delete John Jones as buyer and replace with Sam Smith"
   b. "the buyer John Jones has been replaced by the buyer Sam Smith”
   c. "John Jones as buyer hereby gives notice that he has assigned his interest in the contract to Sam Smith"
3. Call your lawyer early on and discuss your plans in detail.

Author: Barry McGuire

Introduction to Joint Ventures

Introduction to Joint Ventures

You can buy real estate without having a lot of money

Knowledge will be your capital ...
Integrity your magnet ...
Relationships your fuel.

Ask any newbie or veteran real estate investor what their biggest challenge is when it comes to generating lasting wealth with real estate, and 9 times out of 10 you'll get the same answer: Access to capital.

There will come a time when most real estate investors will be looking for secondary sources of cash to build their portfolios. Some will use additional leveraged monies such as lines of credit, equity in the rest of their portfolio, or private money.

However, one of the most common solutions is bringing a money partner into the mix. Someone who can provide working capital to fund the portfolio growth and who is looking to get a return on their available cash.

This type of relationship is commonly called a joint venture (JV), and a true joint venture occurs when two or more parties get together, pool their money and knowledge, and leverage both assets to build a portfolio.

No shares are owned, it is just two or more parties deciding that the best course of action for both is to work together. They agree to terms on money, dividing of duties, and setting of goals.

Bringing other people's money into your real estate deals can be a huge win for both parties involved, but I must warn you, it is critical that you look after the other partner's money better than you would protect your own.

To make this structure successful and repeatable, you must pay extra attention to your due diligence, making sure you're buying into the right deal. Never, put someone else's money into a deal that you wouldn't put your grandmother's money into.

Introduction to Joint Ventures

There is a lot of misinformation floating around regarding this subject, so it is important to start at the beginning, so we can cut through all the misconceptions. What are they and how do they work?

Joint ventures have been around for over a century and are used in all lines of business, as well as real estate. For this purpose, they are loosely defined as two or more parties combining their respective strengths to develop a specific business or invest in a piece of real estate. For this section, we will focus on the example of real estate. However, it is important to note that you can use these strategies in any business venture.

Sophisticated real estate investors create joint venture relationships to build their real estate portfolios more quickly than they could on their own, while using little or no money out of their own pocket. One party brings the real estate expertise while the other brings the investment funds or ability to obtain financing, creating a solid partnership with the same result in mind.

Not having enough investment capital is the most common reason investors are not able to purchase all the real estate they require to create their dream. Investors (veteran and rookie alike) running into a short or long-term capital drought is inevitable in this game.

Unsophisticated investors allow this road bump to stop them in their tracks, while sophisticated investors find a solution ... and that solution is found in developing joint ventures.

Warning: Do not go in with your eyes closed. There is a right way and a wrong way to build and operate joint venture relationships. That’s why it is important to follow a proven system, one that has been authenticated in Canada for real estate investors.

The system you follow must not be filled with old theories. Real-life examples and real-life action steps you can implement are the most sure-fire way to a successful joint venture deal. That way you can confidently become an investment money magnet. Great joint venture relationships are a wonderful addition to someone's business life, but a poorly thought out or poorly designed joint venture leads to frustration and undesirable results.

Creating successful Joint Ventures are based upon a strategic system, and as with all systems, each part works in conjunction with the other. Never ignore a step, unless you want to flirt with financial disaster.

Before we get to the components required to create successful Real Estate Joint Venture relationships, we’re going to start with the basics and a few important fundamentals. Each will help you create a strong foundation upon which you can build successful Joint Ventures.

Let’s start at the beginning. How do you structure a joint venture? There isn’t a singular black and white way in which to structure a deal. Each joint venture relationship is unique, just like a fingerprint. Each can be completely different because there are so many variables: Different people, different expectations, and different goals. The good news is there are some simple templates and structures you can follow.

Each joint venture relationship has key fundamentals that are shared. To make your life easier, your job is to look for commonalities, not exceptions. Your job as an investor and joint venture partner is to simplify and systemize your JV transactions. Make it as cookie-cutter as possible, then deal with the exceptions.

First, let’s look at how the dictionary defines a joint venture:

Joint venture (noun)
A business enterprise in which two or more companies enter a temporary partnership.

This is a good definition, but it might be a bit too broad for real estate joint ventures. How do lawyers typically define joint ventures?

The legal definition for joint ventures is "The joining of two or more people to conduct a specific business enterprise. A joint venture is similar to a partnership in that it must be created by an agreement between parties to share in the losses and profits of the venture. It is unlike a partnership in that the venture is for one specific project only rather than a continuing business relationship." This is quite wordy and legalese; however, it is applicable.

The definition that used at the Real Estate Investment Network Ltd. is, "An agreement joining together two or more parties for the purpose of executing a particular real estate transaction. Each party has committed to perform certain duties and lives up to those written commitments."

You are setting up parameters for one transaction. That one transaction could be 100 individual properties, but what you are setting up is one undertaking.

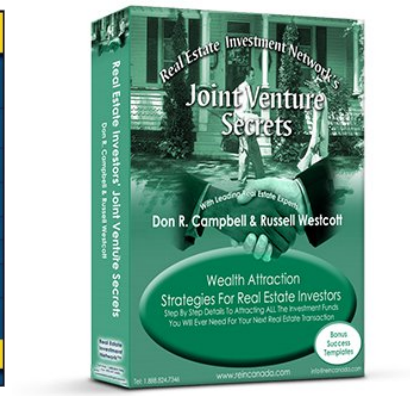
The second part of the definition states "Each party has committed to perform certain duties and lives up to those commitments." This is crucial. If you say you’re going to do something, do it! Then when it comes time to renegotiate, renegotiate. But if you’ve made a commitment and it’s not a good deal in your favour, follow through and don’t repeat the mistake the next time. You need to take responsibility for the deal you have negotiated.

Since we have talked about what a joint venture is, let’s explore a few points about what a joint venture is not:

- A joint venture is not an ongoing partnership; the details for this deal are specific to this transaction and do not transfer over to other business ventures
- In the eyes of the law, joint ventures do not have specific considerations. Lawyers and the Canada Revenue Agency (CRA) typically do not treat joint ventures the same as they would a corporation or a defined partnership. Therefore, a joint venture is not a stand-alone entity like a corporation and does not fall into the same treatment as these structures

As always, it is important to seek good legal and accounting advice from qualified advisors who understand joint ventures and who understand real estate investment. Not every lawyer or accountant you talk to will fully understand all the details around joint ventures and investment real estate. The money you spend with a good advisor will save you much more than you could ever imagine. Therefore, you’ll need to have one on your team.

For a more detailed look at the potential of joint ventures in real estate, read *Real Estate Joint Ventures* or *Joint Venture Secrets*



Action Steps:

- Complete your real estate action plan
- Complete your sophisticated investor financing checklist
- Build your team, especially with an expert lawyer who understands joint ventures
- Become an expert of a real estate investing system
  (ex: the ACRE System)
- Turn all conversations into real estate conversations
- Start associating with people who are successfully raising money

Author: Russell Westcott

Key Lessons Learned:

Perfecting Your Pocket Pitch to Investors

Real estate investors know all too well you only have about thirty seconds to make a first impression, peak someone's interest, gain permission to discuss, explore, or review, and state your case.

Most often the opportunity to deliver your perfect pocket pitch will arise when you get asked the all-important question: "What do you do?" It may only be a brief thirty seconds, but these encounters can have life-long consequences. As real estate investors, you want to make sure your message is instantly understood without sounding either rehearsed or as if it's a sales pitch.

When you first present your opportunity to someone you've just met, the prospect is not listening so much to the words you speak, but the way in which you speak. They are listening for what I've come to call the three C's. The three C's indicate the quality of your character as they speak to your conviction, confidence, and clarity as a real estate investor.

The only way to find, open, and be invited through doors of opportunity is to design, develop, and deliver a series of pocket pitches about your real estate investment product or service, infused with the three C's.

A pocket pitch is an informal, and general commercial about who you are, what problem you solve, and why it might matter to the listener. It's generally thirty to ninety seconds long, and not to be confused with a PowerPoint or Keynote slide deck, which is a formal verbal and visual presentation lasting fifteen to forty-five minutes. Pocket pitches represent your linguistic signature, your business, and your offer. Delivered often enough, and in a special enough way, it can produce a sonic signature, your special calling card, or what is known more widely as a jingle or catch phrase.

A pocket pitch is about being brief, but bold. Speak your mind, have an opinion, and take a stand for something. For example, "I'm not confident in the government's ability to financially be there for me when I need it to be and that's why I build and grow financial plans for investors through real estate …" Be realistic, not hopeful. Share statistics, insights, and industry expert opinions on your perspective. Base your pitch on facts, not fantasy. Don't memorize but be scripted. Recognize you are not a professional comedian or trained actor built to improvise. Be prepared by memorizing a series of statements and stories to accompany your pitch for a consistent outcome and understanding of what it is you do.

There are seven steps to producing the perfect pocket pitch for yourself and your real estate investment business:

1. What problem do you solve for investors?
    - Do you preserve and protect what matters most to them?
    - Have you clarified potential financial yield, growth, or both?
2. What product or service do you provide that solves this problem?
    - How does it work and how do you provide it?
3. What is your value proposition? What makes your offering unique and irreplaceable?

- What do you do that no one else can do quite like you, given your education, background, track record, work history, and life experience?

4. What is the market opportunity for your investor and yourself?
    - Given the marketplace you are focused on, what are the opportunities right now?
    - What do they mean to you, your investor, and the market overall?
5. What is the revenue model?
    - How does your investor, your service providers, and you, make money?
    - How are you saving your investor's time and money?
6. Where is the proof that this is true, it works, and has been done before?
    - What testimonials, copies of transactions, or statements of accounts can you use for reference, so investors can see how well you've done?
7. What is the defined, clear path of action?
    - What is expected of the investor and what can they expect of you?

The perfect pocket pitch isn't about having your real estate investment business, product or service all figured out, the business plan completed, or glossy copies of the executive summary ready for distribution. It's about being clear on the problem you solve, the unique value you create, the opportunity you've harnessed, the revenues available for all, the proof you've done it (or done it in partnership with others), and that now is the time to act.

Before you run off and start writing your perfect pocket pitch remember there are a few points you should be aware of that will increase the odds of success in your favor:

1. The primary purpose for this is to set up future communication like a meeting, email, or telephone call. It's not to sell them on the first encounter.
2. You need to speak to the prospect's current pains and frustrations. Forget about painting the future picture until you fully understand their pain right now.
3. It should instantly grab your prospects' attention while it triggers curiosity, empathy, and emotion.
4. It should focus on eliminating the unqualified prospects. Target only your ideal JV prospects, after you have eliminated the unqualified.

Practice your perfect pocket pitch with clarity, confidence, and conviction. Be in the position to tell your prospective buyer, investor, or partner to act now and procrastinate later.

Author: Richard Dolan

The Joint Venture Game:

The Players:

- Real Estate Experts
- Investors
- The Bank

ACRE – JV Bucks:

Deal #1- ½ Duplex:

LOW MAINTENANCE BRAND NEW!

WON'T LAST– 4 LEFT!

NEW CONSTUCTION; 3BR/2.5BA 1/2 DUPLEX. APPROVED FOR MORTGAGE. LOW DOWN PAYMENT. 5 YEAR WARRANTY. TURN-KEY MILLENNIAL FRIENDLY, LOW MAINTENANCE. NEW TRANSIT STATION.

BANK MAY LEND DOWN PAYMENT

Term: 5 years
Estimated Profit: $30,000
Down Payment: $15,000
Cash Flow: +$200/ mth.
Total Estimated ROI: 200%

Deal #2- Suited House:

CASH FLOW OVERDRIVE

NEW CONSTRUCTION!

LOW DOWN PAYMENT BRAND NEW SUITED HOME, 4 CAR GARAGE WITH GARDEN SUITE (3 RENTAL UNITS). FANTASTIC CASH FLOW. APPROVED FOR MORTGAGE. LOW MAINTENANCE, NEW CONSTRUCTION WITH 5 YEAR NEW HOME WARRANTY. A RARE FIND, IN YOUR TARGET AREA- ONLY 3 REMAIN

BANK MAY LEND DOWN PAYMENT

Term: 5 years
Estimated Profit: $75,000
Down Payment: $25,000
Cash Flow: +$600/ mth.
Total Estimated ROI: 300%

Object of the Game: Let's make a Deal. Can you make a deal work with limited money?

Game Tips:

- Focus on the down payment required, find the resources in the room
- The mortgage has already been approved. Use the bank if you must … they have rules, but they may lend you some down payment money
- If you sell the property, you must use those profits to support your Personal Belize. You cannot re-invest the profits back into another property

Key Lessons Learned – Real Estate Expert:

Key Lessons Learned – Investor:

Step 9

Finding Properties

Ways to Find Real Estate and working with a Realtor®:

The following section is a compilation of the many ways that REIN Members uncover properties that fit their investment system. This is just the beginning of an extensive list that you are going to continually add to.

Use this list and the others that follow as the beginning of your personal brainstorming. Which ones can you use? How can you combine two or more? Be creative and you'll be able to add ideas to the different categories.

Read & Use Newspapers, Classified Ads and Online Sources

- Read rental ads – motivated vendors!
- Bargain Finder
- Edmonton Journal, Edmonton Sun, Edmonton Examiner
- Calgary Herald, Calgary Sun, Calgary Mirror
- Toronto Sun, Toronto Star, Hamilton Spectator
- Vancouver Sun, Vancouver Province, Victoria Times Colonist
- All of the major newspapers in your target area
- Online Ads - post your own and read others
- Online chat rooms and forums
- Real Estate Weekly
- Real Estate News
- Western Investor and other real estate publications
- REIN Classified Ads at www.myREINspace.com
- Buy banner space on targeted sites. Seniors' Sites, U-haul sites, For Sale By Owner, moving company sites
- Newsletters, mailing lists of investors, real estate agents, developers, exempt market dealers
- Craigslist, Kijiji
- Facebook groups
- List your classified at Buy-Sell.com and other non-real estate oriented sites

Your Newspaper & Magazine Ideas:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________

For Sale by Owner (FSBO)

- Look for signs in your target area (cheap and faded ones = motivation)
- Look in newspapers and other ad sources for FSBO ads
- Website examples:
    - www.ab4sale.ca
    - www.canada.homesalez.com
    - www.privateforsale.com
    - www.forsalebyownercanada.com
    - www.Buysellbyphoto.com
    - www.myREINspace.com
    - www.propertysold.ca
    - www.propertyguys.com
    - www.bytheowner.com
    - www.canadabyowner.com

Other for sale by owner websites to view:

1. ______________________________
2. ______________________________

Build Real Estate Agent Relationships

- Build a relationship and give very specific instructions to a Real estate agent®. Once the relationship is set, use them as your buyer's agent as well
- Access www.MLS.ca. Find who focuses on your type of property in your target neighborhood
- Fax to target real estate offices. Be creative and position yourself as a problem solver (ex. Looking for rundown properties – can close quickly!)
- Review the real estate TV channel to find Real estate agents who list your target properties
- Take your Real estate agent with you to FSBOs and pay them a cash amount if you buy. Real estate agents spot FSBO signs before anyone else and they will call you next time they see one … they become a second pair of eyes for you, especially if they know they'll get a fee for finding it for you without listing it
- Make a list of all the Real estate agents you've ever spoken with and make a point of talking with at least one of them every day for a month
- Put your business card on the windshield of every car at the head office of the real estate boards
- Use a hungry (but not starving) real estate agent. Hungry keeps them on their toes, starving means they're not that good and will come across as desperate to the other parties
- Marry a Real estate agent!
- Give incentives (free trips, dinners, show tickets) to Real estate agents who bring you the properties that fit your system

Your Real Estate Agent Ideas:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

Working with Real Estate Agents A Veteran Real Estate Investor's Strategies

Having a quality Realtor® at your side is critical in the game called real estate. Once you find a quality real estate agent, you will give yourself an edge in the marketplace, another step in becoming a sophisticated investor. With that said, it is important to stress the word *quality*. How do you define a quality real estate agent? How do you find one? How do you maximize this relationship?

Why You Need a Quality Real Estate Agent on Your Team

Yes, despite what you may have been taught in the past, you truly do need a real estate agent as part of your investment team. While you develop this relationship, you will also be developing your own marketing plan to attract owners selling privately, and motivated vendors. What the real estate agent can add to this equation is time leverage; if you have built a strong relationship and you are a proven buyer, real estate agents will do a lot of work for you at no direct cost to you.

Here are the main reasons why you need a real estate agent:

- They have access to the Multiple Listing Service (MLS), the largest source of homes for sale
- They can provide you with comparables and good advice on the market value of properties
- They can give you inside information and a feel for an area or neighborhood that you may not be familiar with and help you become a geographic specialist

Most importantly, real estate agents will save you a ton of time! In real estate, as in any other business, time is money. Real estate agents will find you great properties, present your offer, negotiate your offer, drop the signed contract off at your lawyer's office after the deal closes, and bring you the keys to the property at possession. This enables you to dedicate your time elsewhere, in the areas that pay, such as buying more properties, finding more joint venture partners, and negotiating deals!

Why a Real Estate Agent Needs You - And How You Can Help Them

In the Realtor® business, the only way to get paid is by facilitating the purchase or sale of a property. So, as a proven buyer, you are a key to their income. A quality real estate agent will work closely with an investor because they also understand time leverage, meaning it is easier to sell 10 properties to one person than 10 properties to 10 different people. So, if a real estate agent shows no interest in you because you are an investor, move on!

Here are the main reasons a real estate agent needs you:

- You contribute significantly to their income
- They quickly start to sell many more properties every month, not just from you, but also because of the many referrals you bring them
- As an investor, you also sell your properties when the time comes, so they know that if they have a strong relationship with you, they have an excellent chance of getting the listing when you sell

- You are buying based on numbers, not emotion, so you can view properties with them in less time than a personal home buyer

How to Find a Quality Real Estate Agent

Because the relationship is the key to your success with a Realtor®, it is well worth the effort to filter through many prospects to find that one who will be worth their weight in gold.

The best way to find and choose a qualified, reputable real estate agent is to conduct subtle interviews in person. All you must do is find properties you are interested in, contact the listing agent by phone, and meet them at the property. Open houses are also an ideal place to meet real estate agents.

Your conversation with the agent should be designed to find out how effective they might be when it comes to finding properties that fit your chosen system. Is the agent familiar with real estate investing and investors? Is the agent focused on a potential long-term relationship, or does it feel desperate, like they need to make a sale this week to eat? If the agent applies too much pressure during the conversation, you may be tempted to eliminate them as they don't seem to value the word *relationship*, in the same way you do. At the other end of the scale, if their behavior is too relaxed, you may also be tempted to eliminate them. You need an agent who will be selective with the properties they present to you, yet assertive enough to get the deal done when the time comes. Be prepared to talk with many agents before you find the one who you click with.

You want enthusiasm, competence, and consideration from your agent in order to form a long-term relationship that is profitable for both parties.

Expect an attempt from almost every agent to recruit you as a prospect. Remember, it is your job to filter and choose who is best for you. Listen to their pitches if they are polite and tactful, because sometimes you find a gem just by listening.

A common question is, "Should I focus on new or experienced real estate agents?" Well, the bottom line answer is, it doesn't matter. Keep in mind that a new agent can be a good bet if they are well-trained, enthusiastic, and determined. You could receive first-class and highly effective service. Their keenness for the business can make them great sources! Experience in the marketplace is not critical, ability is.

An ideal agent will know the market, be creative, be willing to learn and try new things, have an attractive personality, be enthusiastic, yet tactfully assertive, be reliable and accountable, follow-up in a timely manner, and be excited about working with an investor.

Many new investors will ask other investors for the name of their best real estate agent; this might be a waste of time. If I was to give you the name of my Realtor®, they may call you with a deal, but likely only after they have presented it to me and I have rejected it. Therefore, it is better to find your own agent who will bring you the best deals first. And remember, it doesn't matter if you're investing in your own back yard or in another city, the process is the same. If you are working with an agent in your town, and you want to look at other cities, ask them for an introduction!

Therefore, you must take responsibility for the selection of your own agent. This will provide you with more control over the buying process because you've taken charge of it right from the beginning. Also, since you've hired the agent who will find your next great investment property, you may also fire them if the job is not being performed to your satisfaction.

Once you start working with a real estate agent, specify a set amount of time you'll allow for them to produce good leads. If they cannot meet your expectations, it is likely the relationship will not work out. This could be a sign that they don't have the time or ability to mine other sources for properties. For example, when the MLS system does not generate a list of properties that fit your requirements, you need an agent that will look further. You need an agent that will sift through expired listings, check into exclusive listings from other Realtors® or real estate offices, etc.

Once you find an agent you are excited to do business with, work hard to build the relationship; do what others aren't willing to do!

How to Build a Good Relationship with Your Real Estate Agent

Many investors think like the masses and this is a mistake! Real estate investing is a business and you need to treat it that way. It is easy to stand out from the masses if you step out-of-the-box and start to look at the value your Realtor® relationship brings you.

Let your Realtor® know very clearly what you are looking for. Many times, you will have to educate your agent over time on what different properties will rent for, what your management costs are, etc.

If your real estate agent finds a property that fits your criteria, buy it. If they are going to provide you with first-class service, invest hours and hours of their time inspecting properties, then weeks showing their findings to you, they surely deserve the sale. If loyalty is to be earned, it must also be rewarded. If you are not ready to buy, tell your agent. Remember, this is how they make a living and how they support their family. Do not waste their time!

Always be fair, honest, and upfront. For example, if you run out of cash to buy more properties, tell your agent. If you work with other agents, tell them that as well. Do not misguide your agent to get a better deal. After all, you want them to be honest with you as well.

Do not ask your real estate agent to cut their commission on a deal. I bet you would not like it if your boss asked you to cut your salary in half for a month. There have been times when agents have cut their commission to put a deal together that otherwise would not have worked, but *they* chose this. Remember, the more money you make your real estate agent, the more loyalty you will earn, and the more motivated they will be to find you the next deal. Do not ruin a relationship over a few thousand dollars, that would be "stepping over dollars to get to dimes."

Show up on time for appointments and viewings.

Always say "please" and "thank you." Thank them when they find and negotiate you a great deal. Continually thank them for their hard work. Reward them with any home buyer leads you can provide them.

Have fun together. Laugh, joke around, go out socially together from time to time, get to know each other's families, etc. You will most likely spend a lot of time with your real estate agent, so it might as well be enjoyable for both of you.

REIN highly recommends you start on your quest for a quality real estate agent or two that will fit your system and your personality. You will meet with many, which might be discouraging, but to find a gem is worth the wait!

Canvassing – Pounding the Pavement

- Contact multi-family property owners
- Pull title and contact owners via mail
- Network with fellow REIN Members and real estate investors
- Knock on doors
- Drive through your target neighbourhoods
- Tell everyone you know that you're looking for real estate
- Every time you look at a property, ask the owner if they have any others they (or someone they know) might be selling
- Have your assistant canvas an area for you
- Give your property manager a bonus if they find you a property in the neighbourhood
- Walk a target neighbourhood and leave pamphlets in prospective mail-boxes, or knock on the door, explaining you buy houses

Your Ideas for Canvassing a Target Area:

1. ____
2. ____
3. ____
4. ____

Be Pro-Active in Your Marketing and Advertising (Use Solid Oak Marketing from Step 15)

- Place ads in newspapers – I Buy Houses – Your Price!
- Drop flyers in target areas. Paper the area you want to buy in
- Place ads on www.myreinspace.com
- Use guerilla marketing business cards; tell a story and avoid the corporate look
- Post notices/flyers/business cards in local coffee shops & grocery stores
- Maximize the use of community bulletin boards in your target area
- Create a letter: "My wife has fallen in love with your house … name your price" or "I Will Buy Your House - Your Price," and get it into the hands of the owner (samples in Members Only section - Critical Documents of REIN's website).
- Offer your tenants an incentive if they let you know when a similar property in the area becomes available
- Put a notice up at the local university that says: "Attention First Year Students - Would you like to get your rent back when you graduate?" Get any of the people who reply to contact their landlord to see if they will sell. If they will, do a JV with the students. They are first-time home-buyers, you put the 5% down. They live there, pay the mortgage, pay the bills, and manage the property. You split the equity with them when they graduate
- Take note of an undesirable property talked about in the media and pick it up cheaply (ex. the local house filled with cats, a house where a crime was committed)

- Create large print media ads to attract people to your We Buy Houses website
- Advertise in niche or professional periodicals: Senior's papers, University papers, Western Sentinel (military), Nursing, etc.
- Pay others to put We Buy Houses -with your phone number on their cars, trucks, trailers, cargo vans, etc. A great way for some people and companies to get a portion of their car paid for (taxis, couriers, delivery companies, or independent rental car companies, etc.)
- Place business cards on windshields at fairs, conventions, events, etc. if legal in your area
- Develop an ad to be played before the movies in your target community's theatre
- Advertise on the local church bulletins in your target area
- Be a part of the local Welcome Wagon program. Develop a flyer that tells people that you buy and sell houses, and you're not a real estate agent, and when they're ready to move you're there for them. In addition to finding properties, many of the Welcome Wagon Agents visit renters, a good market for your buyers list
- Sponsor the lunch trucks that arrive at construction and office sites. Have them hand out flyers, or mark their trucks with I Buy Houses type marketing
- Place I Buy Houses advertising on the radio
- Purchase advertising on television (TV Guide channel)
- Place bandit signs on telephone poles in your target neighbourhoods and high traffic areas (check local regulations)
- Place a Yellow Page ad in the Real Estate Brokers section stating: Warning– Do not list your home until you read this special report. Call today to get your free copy! (Use red ink for warning)

Ask for Referrals

From previous sellers

From co-workers

From current JV partners

From family members

From friends

From mortgage brokers

From Lawyers (Divorce, Estate, Litigation, and Real Estate Specialists)

Who Else Would Be A Good Referral?

1. ____________________
2. ____________________
3. ____________________
4. ____________________

Very Creative Strategies

- Check the schedule at Court (look for people going to court against the bank in foreclosure)
- If title search shows liens against the property, vendor may be motivated
- Make sure your banker knows you're looking; they may be the first to know when someone is selling
- Visit garage sales. Often the sales are held as a clean-up before they bring in an agent (or they try to sell it themselves). Be pro-active and ask the owners if they are thinking of selling. And even if they aren't, leave them one of your guerilla business cards
- Most office buildings have security guards who arrive early in the morning with little to do first thing. Buy them a coffee every morning on your way in, in return for checking the paper for new listings before you arrive. Then pay them $100 for every property they find that you buy
- Contact the estate sales from the classified ads and tell them you buy real estate quickly
- Use your Chamber of Commerce contacts
- Use point-of-purchase displays at retail outlets
- Create a relationship with managers of old folk's homes where people are on a waiting list to get in. As they get near the top, you buy their house, solving their problem
- Always carry your Real Estate Investment Network™ bag everywhere you go if you have one: meetings, shopping, the beach, the gym, and camping. It works well as a conversation starter, which you can then shape to whatever you're looking for (buy, sell, rent, find JV partners)
- Support a school or club fund raiser. You create an ad for the newsletters (to parents or their members). If you end up buying a property from the ad the organization receives a bonus fee. This allows the organization to generate passive cash doing for what they already do … distributing newsletters
- Look for bad-news media stories about a neighbourhood. Investigate whether it is a long-term or short-term problem. A short-term problem provides you with a great buying opportunity. Send flyers or letters out to the owners offering to purchase their property. Caution: always conduct your due diligence
- Print I Buy Houses on golf balls with a telephone number and then distribute them at tournaments (or play very badly so you lose lots for others to find!)
- Contact disaster recovery and fire-flood restoration companies, have them present your flyers to the owners
- Create a media event showing how you saved someone from bankruptcy by buying their house at a fair price, leaving the viewers with the message that you will treat them fairly and that you want to buy more of these types of properties
- Position yourself as a problem solver to Human Resource Departments, Headhunters, Military contacts, and major employers in the area. You buy properties from transferring employees at a fair price, and quickly
- Advertise I Buy Houses in pay day loan offices and pawn shops, once again positioning yourself as a problem solver, but *never take advantage of people in tough situations!*

- Pay people to attend large events (fairs, Stampede, concerts, and festivals) wearing your I Buy Houses T-shirts, and have them hand out your business cards to anyone who inquires. As a bonus, the person wearing the shirt puts their name on the card and you give them a bonus for every property you buy from someone calling off the card they distributed
- Sponsor teams to get your name out in your target areas. Dragon Boat teams, minor hockey teams, baseball/softball teams, etc. A great way to support the community you're investing in
- Create relationships with builders and developers. Buy the older houses from the people who are getting a new house built. Rent them back to the people as they wait for the new house to be finished
- Upon reviewing the for rent ads, call the owners and ask if they are interested in selling. Always ask the seller if they have any other property they are considering selling
- Create a relationship with the local U-Haul offices, and post flyers. When people are considering moving, they often check out U-Haul prices etc. beforehand
- Watch for neglected houses in your target area - pull the title and contact the owner. Often, they are very motivated to sell
- If you are looking for the legal land descriptions to pull titles from so that you can contact the owners of properties you are interested in buying, try the government's main land office
- Set up a website for people to list their properties on and then buy the best ones!
- Provide incentives to taxi drivers, couriers, food delivery services, newspaper delivery people, cleaning companies, electric meter readers, mail carriers, etc. to scout properties for you. They become your eyes in the marketplace. Give them the parameters you're looking for and pay them for every property they find that you buy
- Place ads/signs on your rentals: I Pay You to Find Me Houses! Real estate agents welcome! Call XXX-XXXX for more details

Your Creative Ideas:

1. ____
2. ____
3. ____
4. ____

Way Out-of-the-Box Ideas

Read with caution. Use these ideas only to spark your own ideas.

- Go to unemployment lines or look for major lay-off announcements and become a problem solver. If someone is afraid of losing their house, you buy it (giving them the money they need to live) and they may even want to rent it back from you. The key is not to be a vulture, but to help them
- Develop relationships with funeral directors and divorce lawyers; solve the property disbursement problem by having your classy and caring ad in their office
- Buy above urinal ads stating: Landlord Piss you off? Call us and flush away your problems XXX-XXXX
- Buy washroom stalls ads: Ready to dump your house? We buy houses for cash, quickly. Call us today at XXX-XXXX
- Attract RRSP monies by advertising in Union Locals' publications
- Create fortune cookie messages: The time to sell your house is now. Call Bob at XXX-XXXX
- Operate a float in the local parade of your target area
- Operate a booth, on an ongoing basis, at the local Farmer's Market or other community event
- Get your dog a sweater to wear in the winter that says We Buy Houses! Dogs already attract people; why not make it a conversation piece?
- Sponsor Chuck Wagon Races or other major public events. Expose your message to a large market
- Buy Hockey Board space with your message either in local arenas (in your target communities) or at the NHL level. At the higher levels this might be a great joint venture with other investors – share the cost, share the leads
- Create a mascot who attends all the home shows, car shows, festivals, large community events, etc. wearing a shirt or sandwich board with I Buy Houses. They hand out your business cards
- Look for vacation/recreational properties for sale. This may be an indication that the vendor is selling their other (residential) properties due to a change in their situation (financial or personal) and may be quite motivated
- When you buy a car for your kids, put We Buy Houses on it so the car will become your billboard (and often a tax write-off for your business)
- Deliver a seminar educating attendees on how to sell their homes; at the same time see if there are any properties in the group that you may want to buy

Now it's your turn. This list of over 120 options to find real estate was developed exclusively by and for REIN Members. It is designed to be an idea-sparker or brainstorming tool.

After reading the amazing and creative ways in which REIN Members find real estate in any market, you'll have probably thought of your own list. Make sure you write them down in the space below. Don't edit your ideas, make them as outlandish as you can … it doesn't mean you need to follow through with most of your creative ideas. However, they will assist you in the future.

Your Ideas:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

During today's market conditions, and with the goal of writing _________ offers in the next 12 months, I will test the following strategies along with my current action plan:

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________

Step 10

Cash Flow Zone

The Cash Flow Zone

Will It Cash Flow and be a Good Buy and Hold Property?

There are two key resources you will be using as you invest in real estate: time and money. Of the two, only money is a renewable resource and throughout **the ACRE System** you will discover how to continually renew what you invest.

Time, on the other hand, is not renewable. Once time is spent, it is gone forever. That's why, throughout the **ACRE System**, you will discover time saving strategies right along side the investment strategies.

Time is the most valuable commodity you have; therefore, the more you focus your time and use it only on properties that have potential, the more successful you'll become. That's the bottom line.

We developed the **Cash Flow Zone** as a way in which to quickly cut through the thousands of properties for sale and narrow it down to the few with the most potential of creating positive cash flow.

The **Cash Flow Zone** exercise is one of the first steps in your property analysis (don't invest based solely on this one filter as it is the coarsest filter.) You can choose to use it to discard the majority of properties that will come across your desk. Why? Simply because MOST pieces of real estate do NOT make good long-term hold, positive cash flow investments.

This quick analysis tool will help you focus on making good properties work, rather than trying to make poor properties fit your system. Never invest based solely on the Cash Flow Zone – it is just a rule of thumb to help you decide if the property is worth doing diligence on. It is NOT applicable to properties with four or more suites in them.

The Key Questions:

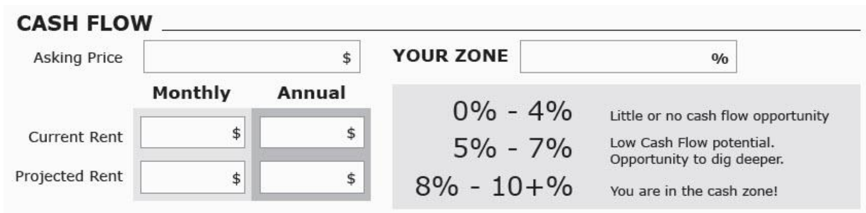
Time will be saved by not looking at properties that have zero chance of being a strong buy-and-hold property, and it will save you time when realtors or vendors contact you with a potential property. Most vendors and realtors love to talk about the emotional or physical attributes of a property. What you will quickly discover is that there's NO use spending time discussing the specific details of the property (color, kitchen, roof, yard size, etc) if it isn't in the **Cash Flow Zone**.

So, when you are speaking with the vendor or realtor, you can quickly get down to brass tacks by stopping the conversation and asking these key questions:

1. **What is the address (location) of the property?** You are trying to ensure that it is in an area that fits your Goldmine Profile.
2. **What is the asking price?** You may wish to ask a realtor what price they think you could get it for.
3. **What is it currently rented for?** If it is not rented, what would it rent for? You may need to do additional homework to ensure the accuracy of this.

The Cash Flow Zone Formula

The Cash Flow Zone formula is a rough calculation designed to tell you if the property has the potential of providing positive cash flow, when all revenues and all expenses are included. This is just a rule of thumb, if a property fits the formula you MUST NOT BUY IT without continuing on the analysis steps of the REIN Due Diligence System. NOT all properties that fit in the Cash Flow Zone will end up being good investments, while at the same time some that don't quite fit may prove to be good investments!



Armed with the answers to the three key questions listed above, analyze the numbers to determine in to which **Cash Flow Zone** the property fits. If it is in Zone 1, the probability is that it will be a waste of your time, if it is in Zone 2 or 3, it has a very high likelihood of providing positive cash flow and warrants more of your time. Remember to count ALL potential revenues from the property, including rents from all suites, the garage and any additional revenues you can generate.

(Total Annual Revenues divided by total price) x 100 = _________%

If the above number is **8% or more**, it has made it into the **Cash Flow Zone** and you can consider it a **potential** revenue producing property, worth spending time investigating. Your next step is to continue with the due diligence program to ensure it does fit the system.

Example 1:

The property is selling for	$185,000
Main Suite Rent:	$995
Basement Suite Rent:	$595
Garage Rent:	$0

Total Monthly Revenues: $1,590 x 12 months = $19,080

÷ Total Price of $185,000 = .103

x 100 = 10.3%

Example 2:

The property is selling for	____________________________
Main Suite Rent:	____________________________
Basement Suite Rent:	____________________________
Garage Rent:	____________________________

Total Monthly Revenues: ___________ x 12 months = $________________

÷ Total Price ______________________________ = __________________

x 100 = __________________%

Is It Worth Spending More Time On?

Step 11

Property Analysis

Anytown	Any Avenue	LP:	$559,900
		SP:	

Type:	Duplex Side By Side	**Listing ID#:**	
Style:	Bi-Level	**Bdrms Above:**	4
Year Built:	1975	**Bdrms Total:**	8
Full Baths:	4	**Basement:**	Full
Half Baths:	0	**Bsmnt Dev:**	Fully Finished
Tot A.G. SqFt:	1,712.55	**Tot A.G. SqM:**	159.10

Fully rented duplex for sale! Investor turnkey rental property. Gross rent is $3,570/month. Each side offers 2 bedrooms up and 2 bedrooms down. Both basements have side door access with a second kitchen and separate laundry. Detached double garage has a partition down the middle which allows for versatility when renting out. Well maintained and plenty of upgrades for both units. Utilities are paid by the tenant. Close to transit!

Directions:

Virtual Tour: **Brochure:**

	1Pc	2Pc	3Pc	4Pc	5Pc	6Pc
Baths:	0	0	2	2	0	0
Ensuite Baths:		0	0	0	0	0

Finish Levels: 2
Fireplace Y/N: **Fireplace Type:** **Fireplace Fuel:**
Parking: Double Garage Detached
Garage Dim: **Prk Encl/Ttl:** /

Level	SqM	SqFt
Main:		
Uppr:		
AbGd:		
Lowr:		
BlGd:	149.82	1,612.66
Total A.G.:	159.10	1,712.55

Living Room:	**Master Bedroom:**	M	**Bedroom**	M
Dining Room:	**Bedroom 2:**	M	**Bedroom**	B
Kitchen:	**Bedroom 3:**	B	**Bedroom**	B
Family Room:	**Bedroom 4:**	B		
Den:	**Bedroom**	M		
Bonus Room:				

Flooring:	Carpet, Ceramic Tile, Parquet	**Foundation:**	Concrete
Construction:	Wood Frame	**Heating Type:**	Forced Air-1
Roof:	Asphalt Shingles	**Heat Fuel Desc:**	
Exterior:	Stucco	**Features:**	Laundry-In-Suite
Site Influences:	Back Lane, Fenced		

Goods Included: Hood Fan, Window Coverings, Dryer-Two, Refrigerators-Two, Stoves-Two, Washers-Two

Restrictions: None Known

Goods Excluded:

Warranty:
Elem School: **Jr. High School:** **Sr High School:**

Condo Name: **Condo Fee Incld:**
Condo Fee: **HOA Fee:**
Floor Location: **Floor Number:**
Balcony/Terrace: **Unit Exposure:** **HOA Fee Incl:**

Total Lot M2:			**Lot Shape:**	Rectangular	**Lot Dimen:**
Frontage:		**Depth:**	**Zoning:**	RF3	
Conform:		**Conform Yr:**	**Front Expos:**	West	
Taxes:	3,361.00/year		**Local Improve:**	$0	

REIN PROPERTY ANALYZER

CASH FLOW

Asking Price: 559,900 $

YOUR ZONE 7.65 %

	Monthly	Annual
Current Rent	3,570 $	42,840 $
Projected Rent	$	$

0% - 4%	Little or no cash flow opportunity
5% - 7%	Low Cash Flow potential. Opportunity to dig deeper.
8% - 10+%	You are in the cash zone!

Annual rent / asking price = cash flow zone %

PROPERTY DATA

Alias: **New Property**

Style: Duplex

Address: Any Avenue

City / Area: Any Town

Province:

Date Viewed:

Notes: Fully rented duplex for sale. Investor turnkey rental property. Gross rent is $3,570/month. Each side offers 2 bedrooms up and 2 bedrooms down. Both basements have side door access with a second kitchen and separate laundry. Utilities paid by tenant. Close to transit.

Year Built: 1975

Size Sq ft.: BG/806 sq.ft AG/856 sq.ft

Vendor / Seller	Phone	Email

Listing Source / Realtor	Phone	Email
REIN Buyers Group		info@reinbuyersgroup.com

Est. Repair & Upgrade Cost: n/a

Asking Price: $559,900

Condition 1 2 3 4 5

INCOME

Suite # / description	# of Bedrooms	Current Rent	Projected Rent	Rental Increase Date
1	4	1785 $	$	
2	4	1785 $	$	
		$	$	
		$	$	
TOTAL MONTHLY INCOME		3,570 $	$	Inspection Comments
TOTAL ANNUAL INCOME		42,840 $	$	

EXPENSES

		Current Monthly	Projected Monthly	Comment
Heat		$	$	Paid by tenant
Electricity		$	$	Paid by tenant
Water / Sewer		$	$	Paid by tenant
Taxes		280 $	$	
Condo Fees		$	$	
Insurance		230 $	$	
Bookkeeping		50 $	$	$25 per door
Repairs & Maint.	5 %	178 $	$	
Property Mgmt.	10 %	357 $	$	
Vacancy Allowance	8 %	285 $	$	
Other		$	$	
TOTAL EXPENSES		1,380 $	$	

PURCHASE COST

	Cost	Cost	
Professional Inspection	500 $	1,250 $	Legal Costs (incl. disbursements)
Immediate Maintenance / Repair	$	$	Surveyor's Real Property Report
Interior Renovations	$	$	Exterior Renovations
Appraisal Cost	200 $	$	Mortgage Broker Fees
Staying Power (reserve fund)	10,707 $	$	Transfer Taxes (each province may differ)
Title Insurance	$	12,657 $	**TOTAL PURCHASE COST**

FINANCING / DEBT SERVICE

Asking Price			**Amount**	**Down Payment**
559,900 $	1st Mortgage	80 %	447,920 $	111,980 $
Projected Purchase Price	2nd Mortgage	%	$	
559,900 $	Line of Credit (LOC)		$	
Appraised Value	Vendor Take Back (VTB)		$	
559,900 $	Other		$	
TOTAL DEBT FUNDING			447,920 $	

Interest Rate	Amortization	Monthly Debt Service Payment
3.29 %	30	1,954 $
%		$
%		$
%		$
%		$
%		$
	TOTAL DEBT SERVICE	1,954 $

DOWN PAYMENT REQUIRED (Asking Price - Total Debt Funding)	111,980 $
TOTAL REQUIRED TO CLOSE (Down Payment + Total Purchase Cost)	124,637 $

NET CASH FLOW

NET CASH FLOW

(Gross Income - Expenses - Debt Service)

Current		Projected	
Monthly	Annually	Monthly	Annually
236 $	2,835 $	$	$

PROJECTED APPRECIATION

Purchase Price * Buyer's Estimated Appreciation %

Annual

16,797 $

3 %

RETURN ON INVESTMENT (ROI)

CASH ON CASH

(Annual Cash Flow / Total Cash Required to Close) x 100

2 %

CASH ON CASH PLUS™

[(Annual Cash Flow + Annual Principal Reduction) / Total Cash Required to Close] x 100

9 %

PRINCIPAL REDUCTION - YEAR ONE

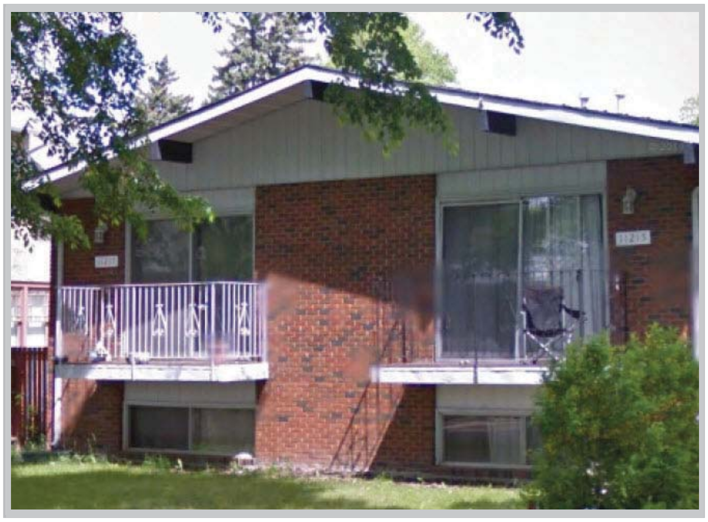
8,941 $

PROJECTED ROI - YEAR ONE

[(Annual Cash Flow + Annual Principal Reduction + Projected Appreciation) / Cash Invested] x 100

23 %

PROFORMA | Full Duplex (with non-conforming suites)



ADDRESS:
Any Avenue, Any Town

RATING	★★★★☆
PURCHASE PRICE	$559,900
MORTGAGE AMOUNT (1st & 2nd)	$447,920
OTHER FINANCING	$0
DOWN PAYMENT REQ.	$111,980
PURCHASE COSTS	$12,657
TOTAL CASH TO CLOSE:	**$124,637**
IMMEDIATE REPAIR AND MAINTENANCE	$0
IMMEDIATE RENOVATIONS	$0
TOTAL RENOVATIONS AND R&M:	**$0**
TOTAL INVESTMENT:	**$124,637**

ESTIMATED MONTHLY CASH FLOW

Financing	*Amount*	*Current Rent*	*Projected Rent*
Rental Income (from all sources)		$3,570	
1st. Mortgage Payment (payment @ 3.29% rate)	$1,954		
2nd Mortgage Payment (payment @ 0.00% rate)			
Other Financing			
TOTAL DEBT FINANCING	**$1,954**		
Expenses			
Condo Fees (If Applicable)			
Utilities			
Property Taxes	$280		
Insurance	$230		
Property Management	$357		
Vacancy Alowance	$285		
Repairs and Maintenance Allowance	$178		
Other ()	$50		
TOTAL RENTAL EXPENSES:	**$1,380**		
ESTIMATED MONTHLY CASH FLOW		**$236**	

YOUR INVESTMENT PROJECTED RESULTS

TOTAL INVESTMENT:	**$124,637**
Appreciation @ 3.00% per year	$16,797
Cash Flow (annual)	$2,835
Principal reduction (yr. 1)	$8,941
YEAR ONE PROFIT:	**$28,573**
Year One ROI	23%
Annual Cash on Cash Return	2%
Projected ROI 5 years	112%

NOTES:

PRESENTED BY:

Any Town

Any Street

$239,000 (LP)
$239,000 (SP)

Board: H, Attached
Townhouse

DOM: **1** List Date: Expiry Date:
Prev. Price: **$0** Original Price: **$239,000** Sold Date:

Meas. Type:	**Feet**	Frontage (feet):	**0.00**	Approx. Year Built:	**1993**
Depth/Size:	**0**	Frontage (metres):	**0.00**	Age:	**24**
Sq. Footage:	**0.00**	Bedrooms:	**2**	Zoning:	**R4-A**
Flood Plain:	**Yes**	Bathrooms:	**2**	Gross Taxes:	**$1,048.65**
Exposure:		Full Baths:	**2**	For Tax Year:	**2017**
If new, GST/HST inc?:		Half Baths:	**0**	Tax Inc. Utilities?:	**No**
P.I.D.:	**018-732-640**	Council Apprv?:		Maint. Fee:	**$182.00**
View:	**Yes: Mountain Views**			Tour:	
Mgmt. Co's Name:				Mgmt. Co #:	

Complex / Subdiv: **Heritage Lane**
Services Connctd: **Electricity, Natural Gas, Sanitary Sewer, Storm Sewer, Water**

Style of Home: **Upper Unit**
Construction: **Frame - Wood**
Exterior: **Brick, Mixed, Vinyl**
Foundation: **Concrete Perimeter**
Rain Screen:
Renovations:
Water Supply: **City/Municipal**
Fireplace Fuel: **Gas - Natural**
Fuel/Heating: **Baseboard, Electric**
Outdoor Area: **Balcony(s)**
Type of Roof: **Asphalt**

Reno. Year:
R.I. Plumbing:
R.I. Fireplaces:
\# of Fireplaces: **1**

Total Parking: **2** Covered Parking: **1** Parking Access: **Front**
Parking: **DetachedGrge/Carport, Open**
Locker: **No**
Dist. to Public Transit: Dist. to School Bus:
Units in Development: **30** Total Units in Strata: **30**
Title to Land: **Freehold Strata**
Seller's Interest: **Registered Owner**
Property Disc.: **No : Seller has never occupied premises**
Fixtures Leased: **No :**
Fixtures Rmvd: **No :**
Floor Finish: **Mixed**

Maint Fee Inc: **Garbage Pickup, Management, Sewer, Water**
Legal: **PL LMS1366 LT 14 DL 335 LD 36**

Amenities: **In Suite Laundry**

Site Influences: **Central Location**
Features: **Clothes Washer, Dishwasher, Drapes/Window Coverings, Refrigerator, Stove**

Municipal Charges
Garbage:
Water:
Dyking:
Sewer:
Other:

Floor	Type	Dimensions	Floor	Type	Dimensions	Floor	Type	Dimensions
Main	**Kitchen**	**11' x 7'**			**x**			**x**
Main	**Living Room**	**15' x 12'**			**x**			**x**
Main	**Dining Room**	**10'8 x 10'8**			**x**			**x**
Main	**Master Bedroom**	**13'8 x 10'**			**x**			**x**
Main	**Bedroom**	**11'6 x 10'10**			**x**			**x**
Main	**Nook**	**10' x 10'**			**x**			**x**
		x			**x**			**x**
		x			**x**			**x**
		x			**x**			
		x			**x**			

Finished Floor (Main):	**1,176**
Finished Floor (Above):	**0**
Finished Floor (Below):	**0**
Finished Floor (Basement):	**0**
Finished Floor (Total):	**1,176 sq. ft.**
Unfinished Floor:	**0**
Grand Total:	**1,176 sq. ft.**

\# of Rooms: **6** # of Kitchens: **1** # of Levels: **1**
Crawl/Bsmt. Height:
Restricted Age:
\# of Pets: Cats: **Yes** Dogs: **Yes**
\# or % of Rentals Allowed:
Bylaw Restric: **Rentals Allowed**
Basement: **None**

Bath	Floor	# of Pieces	Ensuite?
1	**Main**	**4**	**Yes**
2	**Main**	**4**	**No**
3			
4			
5			
6			
7			
8			

Outbuildings
Barn:
Workshop/Shed:
Pool:
Garage Sz:
Door Height:

List Broker 1: REIN Buyers Group List Broker 2:
List Sales Rep 1:
List Sales Rep 2: 3:
Sell Broker 1:
Sell Sales Rep 1: 2: 3:
Owner:
Commission: **3% 1ST $100,000/1.25% BAL**

Appointments:
Email: info@reinbuyersgroup.com
Phone:

Occupancy: **Vacant**

Realtor
Remarks: Rents for $1700/month, Utilities paid by tenant

REIN PROPERTY ANALYZER - EXERCISE

CASH FLOW

	Monthly	Annual
Asking Price	$	
Current Rent	$	$
Projected Rent	$	$

YOUR ZONE %

0% - 4%	Little or no cash flow opportunity
5% - 7%	Low Cash Flow potential. Opportunity to dig deeper.
8% - 10+%	You are in the cash zone!

Annual rent / asking price = cash flow zone %

PROPERTY DATA

Alias

New Property

Style

Year Built

Size Sq ft.

Address

City / Area

Province

Date Viewed

Notes

Vendor / Seller	Phone	Email

Listing Source / Realtor	Phone	Email

Est. Repair & Upgrade Cost	Asking Price

Condition 1 2 3 4 5

INCOME

Suite # / description	# of Bedrooms	Current Rent	Projected Rent	Rental Increase Date
		$	$	
		$	$	
		$	$	
		$	$	
TOTAL MONTHLY INCOME		$	$	Inspection Comments
TOTAL ANNUAL INCOME		$	$	

EXPENSES

	Current Monthly	Projected Monthly	Comment
Heat	$	$	
Electricity	$	$	
Water / Sewer	$	$	
Taxes	$	$	
Condo Fees	$	$	
Insurance	$	$	
Bookkeeping	$	$	
Repairs & Maint. %	$	$	
Property Mgmt. %	$	$	
Vacancy Allowance %	$	$	
Other	$	$	
TOTAL EXPENSES	$	$	

PURCHASE COST

	Cost	Cost	
Professional Inspection	$	$	Legal Costs (incl. disbursements)
Immediate Maintenance / Repair	$	$	Surveyor's Real Property Report
Interior Renovations	$	$	Exterior Renovations
Appraisal Cost	$	$	Mortgage Broker Fees
Staying Power (reserve fund)	$	$	Transfer Taxes (each province may differ)
Title Insurance	$	$	**TOTAL PURCHASE COST**

FINANCING / DEBT SERVICE

			Amount	Down Payment
Asking Price $	1st Mortgage	%	$	$
Projected Purchase Price $	2nd Mortgage	%	$	
	Line of Credit (LOC)		$	
Appraised Value $	Vendor Take Back (VTB)		$	
	Other		$	
	TOTAL DEBT FUNDING		$	

Interest Rate	Amortization	Monthly Debt Service Payment
%		$
%		$
%		$
%		$
%		$
%		$
	TOTAL DEBT SERVICE	$

DOWN PAYMENT REQUIRED
(Asking Price - Total Debt Funding) $

TOTAL REQUIRED TO CLOSE
(Down Payment + Total Purchase Cost) $

NET CASH FLOW

NET CASH FLOW

(Gross Income - Expenses - Debt Service)

Current		Projected	
Monthly	Annually	Monthly	Annually
$	$	$	$

PROJECTED APPRECIATION

Purchase Price * Buyer's Estimated Appreciation %

Annual

$

%

RETURN ON INVESTMENT (ROI)

CASH ON CASH

(Annual Cash Flow / Total Cash Required to Close) x 100

%

CASH ON CASH PLUS™

[(Annual Cash Flow + Annual Principal Reduction) / Total Cash Required to Close] x 100

%

PRINCIPAL REDUCTION - YEAR ONE

$

PROJECTED ROI - YEAR ONE

[(Annual Cash Flow + Annual Principal Reduction + Projected Appreciation) / Cash Invested] x 100

%

PROFORMA - EXERCISE

ADDRESS:
Any Street, Any Town

RATING	☐☐☐☐☐
PURCHASE PRICE	
MORTGAGE AMOUNT (1st & 2nd)	
OTHER FINANCING	
DOWN PAYMENT REQ.	
PURCHASE COSTS	
TOTAL CASH TO CLOSE:	
IMMEDIATE REPAIR AND MAINTENANCE	
IMMEDIATE RENOVATIONS	
TOTAL RENOVATIONS AND R&M:	
TOTAL INVESTMENT:	

ESTIMATED MONTHLY CASH FLOW

Financing	*Amount*	*Current Rent*	*Projected Rent*
Rental Income (from all sources)			
1st Mortgage Payment (_______% rate)			
2nd Mortgage Payment (_______ % rate)			
Other Financing			
TOTAL DEBT FINANCING			
Expenses			
Condo Fees (If Applicable)			
Utilities			
Property Taxes			
Insurance			
Property Management			
Vacancy Allowance			
Repairs and Maintenance Allowance			
Other ()			
TOTAL RENTAL EXPENSES:			
ESTIMATED MONTHLY CASH FLOW			

YOUR INVESTMENT PROJECTED RESULTS

TOTAL INVESTMENT:	
Appreciation ______% per year	
Cash Flow (annual)	
Principle reduction (annual)	
YEAR ONE PROFIT:	
Year One ROI	
Annual Cash on Cash Return	
Projected ROI 5 years	

NOTES:

PRESENTED BY:

Calculated on REIN Member Back Office Property Analyzer

REIN PROPERTY ANALYZER - ANSWER KEY

CASH FLOW

Asking Price: 239,000 $

YOUR ZONE: 8.54 %

	Monthly	Annual
Current Rent	1,700 $	20,400 $
Projected Rent	$	$

0% - 4%	Little or no cash flow opportunity
5% - 7%	Low Cash Flow potential. Opportunity to dig deeper.
8% - 10+%	You are in the cash zone!

Annual rent / asking price = cash flow zone %

PROPERTY DATA

Alias: **New Property**

Style: Townhouse

Address: Any Street

City / Area: Any Town

Province:

Date Viewed:

Notes:

Features spacious master bedroom and ensuite, open concept living room with a gorgeous gas fireplace. Rents for $1700/month. Utilities paid by tenant.

Year Built	Vendor / Seller	Phone	Email
1993			

Size Sq ft.	Listing Source / Realtor	Phone	Email
1176			

Est. Repair & Upgrade Cost	Asking Price
$0	$239,000

Condition 1 2 3 4 5

INCOME

Suite # / description	# of Bedrooms	Current Rent	Projected Rent	Rental Increase Date
Townhouse	2	1,700 $	$	
		$	$	
		$	$	
		$	$	
TOTAL MONTHLY INCOME		1,700 $	$	Inspection Comments
TOTAL ANNUAL INCOME		20,400 $	$	

EXPENSES

		Current Monthly	Projected Monthly	Comment
Heat		$	$	Paid by tenant
Electricity		$	$	Paid by tenant
Water / Sewer		$	$	Paid by tenant
Taxes		87 $	$	
Condo Fees		182 $	$	
Insurance		30 $	$	
Bookkeeping		25 $	$	$25 per door
Repairs & Maint.	5 %	75 $	$	
Property Mgmt.	10 %	170 $	$	
Vacancy Allowance	8 %	120 $	$	
Other		$	$	
TOTAL EXPENSES		689 $	$	

PURCHASE COST

	Cost	Cost	
Professional Inspection	500 $	1,250 $	Legal Costs (incl. disbursements)
Immediate Maintenance / Repair	$	$	Surveyor's Real Property Report
Interior Renovations	$	$	Exterior Renovations
Appraisal Cost	200 $	$	Mortgage Broker Fees
Staying Power (reserve fund)	4,500 $	2,780 $	Transfer Taxes (each province may differ)
Title Insurance	$	9,230 $	**TOTAL PURCHASE COST**

FINANCING / DEBT SERVICE

			Amount	Down Payment
Asking Price: 239,000 $	1st Mortgage	80 %	191,200 $	47,800 $
Projected Purchase Price: 239,000 $	2nd Mortgage	%	$	
	Line of Credit (LOC)		$	
Appraised Value: 239,000 $	Vendor Take Back (VTB)		$	
	Other		$	
	TOTAL DEBT FUNDING		191,200 $	

Interest Rate	Amortization	Monthly Debt Service Payment
3.29 %	30	834 $
%		$
%		$
%		$
%		$
%		$
	TOTAL DEBT SERVICE	834 $

DOWN PAYMENT REQUIRED (Asking Price - Total Debt Funding)	47,800 $
TOTAL REQUIRED TO CLOSE (Down Payment + Total Purchase Cost)	57,030 $

NET CASH FLOW

NET CASH FLOW
(Gross Income - Expenses - Debt Service)

Current		Projected	
Monthly	Annually	Monthly	Annually
177 $	2124 $	$	$

PROJECTED APPRECIATION
Purchase Price * Buyer's Estimated Appreciation %

Annual

7,170 $

3 %

RETURN ON INVESTMENT (ROI)

CASH ON CASH
(Annual Cash Flow / Total Cash Required to Close) x 100

4 %

CASH ON CASH PLUS™
[(Annual Cash Flow + Annual Principal Reduction) / Total Cash Required to Close] x 100

10 %

PRINCIPAL REDUCTION - YEAR ONE

3,817 $

PROJECTED ROI - YEAR ONE
[(Annual Cash Flow + Annual Principal Reduction + Projected Appreciation) / Cash Invested] x 100

23 %

PROFORMA - EXERCISE COMPLETED

ADDRESS: Any Street, Any Town

RATING	★★★★☆
PURCHASE PRICE	$239,000
MORTGAGE AMOUNT (1st & 2nd)	$191,200
OTHER FINANCING	
DOWN PAYMENT REQ.	$47,800
PURCHASE COSTS	$9,230
TOTAL CASH TO CLOSE:	**$57,030**
IMMEDIATE REPAIR AND MAINTENANCE	
IMMEDIATE RENOVATIONS	
TOTAL RENOVATIONS AND R&M:	
TOTAL INVESTMENT:	**$57,030**

ESTIMATED MONTHLY CASH FLOW

Financing	*Amount*	*Current Rent*	*Projected Rent*
Rental Income (from all sources)		$1,700	
1st Mortgage Payment (3.29 % rate)	$834		
2nd Mortgage Payment (_______ % rate)			
Other Financing			
TOTAL DEBT FINANCING	**$834**		
Expenses			
Condo Fees (If Applicable)	$182		
Utilities			
Property Taxes	$87		
Insurance	$30		
Property Management	$170		
Vacancy Allowance	$120		
Repairs and Maintenance Allowance	$75		
Other ()	$25		
TOTAL RENTAL EXPENSES:	**$689**		
ESTIMATED MONTHLY CASH FLOW		**$177**	

YOUR INVESTMENT PROJECTED RESULTS

TOTAL INVESTMENT:	**$57,030**
Appreciation 3 % per year	$7,170
Cash Flow (annual)	$2124
Principal reduction (annual)	$3817
YEAR ONE PROFIT:	**$13,111**
Year One ROI	23%
Annual Cash on Cash Return	4%
Projected ROI 5 years	106%

NOTES:

PRESENTED BY:

REIN Buyers Group
info@reinbuyersgroup.com

REIN’s Residential Property Analyzer

REIN PROPERTY ANALYZER

CASH FLOW

Asking Price	$	
	Monthly	**Annual**
Current Rent	$	$
Projected Rent	$	$

YOUR ZONE %

0% - 4%	Little or no cash flow opportunity
5% - 7%	Low Cash Flow potential. Opportunity to dig deeper.
8% - 10+%	You are in the cash zone!

Annual rent / asking price = cash flow zone %

PROPERTY DATA

Alias

New Property

Style

Address

City / Area

Province

Date Viewed

Notes

Year Built

Vendor / Seller

Phone

Email

Size Sq ft.

Listing Source / Realtor

Phone

Email

Est. Repair & Upgrade Cost

Asking Price

Condition 1 2 3 4 5

INCOME

Suite # / description	# of Bedrooms	Current Rent	Projected Rent	Rental Increase Date
		$	$	
		$	$	
		$	$	
		$	$	
	TOTAL MONTHLY INCOME	$	$	Inspection Comments
	TOTAL ANNUAL INCOME	$	$	

EXPENSES

	Current Monthly	Projected Monthly	Comment
Heat	$	$	
Electricity	$	$	
Water / Sewer	$	$	
Taxes	$	$	
Condo Fees	$	$	
Insurance	$	$	
Bookkeeping	$	$	
Repairs & Maint. %	$	$	
Property Mgmt. %	$	$	
Vacancy Allowance %	$	$	
Other	$	$	
TOTAL EXPENSES	$	$	

PURCHASE COST

	Cost	Cost	
Professional Inspection	$	$	Legal Costs (incl. disbursements)
Immediate Maintenance / Repair	$	$	Surveyor's Real Property Report
Interior Renovations	$	$	Exterior Renovations
Appraisal Cost	$	$	Mortgage Broker Fees
Staying Power (reserve fund)	$	$	Transfer Taxes (each province may differ)
Title Insurance	$	$	**TOTAL PURCHASE COST**

FINANCING / DEBT SERVICE

			Amount	Down Payment
Asking Price $	1st Mortgage	%	$	$
Projected Purchase Price	2nd Mortgage	%	$	
$	Line of Credit (LOC)		$	
Appraised Value	Vendor Take Back (VTB)		$	
$	Other		$	
TOTAL DEBT FUNDING			$	

Interest Rate	Amortization	Monthly Debt Service Payment
%		$
%		$
%		$
%		$
%		$
%		$
	TOTAL DEBT SERVICE	$

DOWN PAYMENT REQUIRED
(Asking Price - Total Debt Funding) $

TOTAL REQUIRED TO CLOSE
(Down Payment + Total Purchase Cost) $

NET CASH FLOW

NET CASH FLOW
(Gross Income - Expenses - Debt Service)

Current		Projected	
Monthly	Annually	Monthly	Annually
$	$	$	$

PROJECTED APPRECIATION
Purchase Price * Buyer's Estimated Appreciation %

Annual

$

%

RETURN ON INVESTMENT (ROI)

CASH ON CASH
(Annual Cash Flow / Total Cash Required to Close) x 100

%

CASH ON CASH PLUS™
[(Annual Cash Flow + Annual Principal Reduction) / Total Cash Required to Close] x 100

%

PRINCIPAL REDUCTION - YEAR ONE

$

PROJECTED ROI - YEAR ONE
[(Annual Cash Flow + Annual Principal Reduction + Projected Appreciation) / Cash Invested] x 100

%

REIN’s Multi-Family Analyzer

REIN Multi-Family Quick Analyzer

Property Data:

Address:______________________ City/Area: _______________ Date Viewed: _____________

Asking Price: ____ Age: _____________________

Owner: ______________________ Tel: __________________ Fax: _____________________

Source: ______________________ Tel: __________________ Fax: _____________________

Onsite Management Impression: 1 2 3 4 5 Current # Vacant ____________

Number of Suites Requiring Renovation: ____________ Windows replaced? Yes No

Overall: Common Area Condition: 1 2 3 4 5 Exterior Condition: 1 2 3 4 5

Roof Required? Yes No Siding Required? Yes No Suite Condition*: 1 2 3 4 5

Neighbouring Buildings: Worse Same Better

Income & Inspection

Description	**# of Units**	**Rent Per Unit Per Month**	**Total Current Monthly Rent**	**Increase Potential?**	**Condition / Size Comments**
Bachelor					
1 Bedroom					
2 bedroom					
3 bedroom					
Laundry income					

Total Monthly Rent $ ____________

X 12

Total Annual Rent $ ____________

Subtract vacancy allowance __________ % - ____________

Gross Effective Income ____________

* Each suite's condition should be documented on a separate piece of paper as part of your due diligence inspection

Expenses:

	Current Annual	**Current Monthly**	**Projected Annual**	**Comments**
Heat (gas, oil, electric, hot water, other ________				In-suite Paid By Tenant / Landlord
Electricity				In-suite Paid By Tenant / Landlord
Water / Sewer				
Taxes				Announced Increase? Check city
Insurance				(allocation only – total factored in on back of form)
Property Management				____________ %
Onsite Manager				Name:
Ongoing Repairs & Maintenance				____________ %
Other:				

TOTAL Operating Expenses $ ____________ $ ____________

Net Operating Income (annual):________________________ Operating Expense Ratio: ____________%

Gross effective income – operating expenses Operating expenses / effective gross income * 100

NET OPERATING INCOME (NOI) $_______________
(from bottom of page 1)

Prevailing Cap Rate: ____%

Approx Market Value Based on Income: $___________________
Net Operating Income / prevailing cap rate (decimal)

This Building's Cap Rate: ________%
(net operating income / asking price) x100

Purchase Details:

PROJECTED PURCHASE PRICE			$ _______________
1st Mortgage Funding	($ ________________)	______%	
2nd Mortgage Funding	($ ________________)		
Vendor Take Back	($ ________________)		
Other Funding	($ ________________)		
TOTAL DEBT FUNDING	→		($ ______________)
DOWN PAYMENT REQUIRED			$ _______________

Expected Annual Mortgage Payment (P+I): $ __________________

Expected Cash Flow (NOI minus mortgage payment) $ __________________

Closing Costs:

Legal (yours)	$ _______________	
Legal (the Lenders)	$ _______________	
Insurance	$ _______________	
Insurance review	$ _______________	
Mortgage Stand-By Fee	$ _______________	(refundable at closing)
Mortgage Application & Processing Fees	$ _______________	(include broker fee & CMHC)
Appraisal	$ _______________	
Phase 1 Environmental Study	$ _______________	
Engineering Inspection Report	$ _______________	(roof, mechanical)
Land Transfer Tax	$ ________________	
Staying Power Fund	$ _______________	(3 months of mortgage payments)

TOTAL CLOSING COSTS → $ ________________

Immediate Repairs and Renovations $ ________________

TOTAL CASH REQUIRED TO CLOSE **(Down payment + Closing Costs + Repairs)** **$** ______________

Cash-on-Cash Return: ______________%
(Expected Cash Flow / Total Cash To Close) * 100

Cash-on-Cash PLUS™ ___________%
(Expected Cash Flow + mtge paydown / Total Cash To Close) * 100

1. What Strategy am I Considering For this Property? ☐ Long Term ☐ Short Term (<5yrs)
2. Does This Property Fit My System? ☐ Yes ☐ No
3. Will This Property Be Impeccably Property Managed? ☐ Yes ☐ No
4. Who Will Manage The Property? ______________________________

Step

12

Offers: Writing and Negotiating

Writing Offers Checklist

Tasks to complete	Date Completed
1. Research area to ensure tenant profile meets your criteria	

- Visit the area three different days and times
- Shop in local shops
- Have coffee in the local Tim Hortons or Starbucks

2. Research target property	

- Past sale history
- Current Listings (minimum four comparables)
- Personally viewed all comparables
- Sold Listings (minimum four comparables)
- Confirm all rental numbers
- Research minimum of three rental sites
- Visit minimum of five rental units in the area
- Knock on the neighbours' doors (two each way and across the street)
- Neighbours know more than we think so the key is to ask what they know

3. Talk to mortgage broker or Bank to prepare them for the offer	

- Understand their timing for financing condition
- Submit your completed binder to them
- Bring them donuts or a box of gummies
- Build the relationship with them as they have a voice
- Add pictures of the property (inside and out)
- Add pictures of the street and area

4. Talk to property inspector	

- Understand their timing for inspection condition
- Make sure they are certified
- Inform them this is an investment property
- Understand the time it takes for them to report back to you
- Have them do a summary of all issues with pictures to support their findings

Writing Offers Checklist

Tasks to complete	Date Completed
5. Have your Realtor® call selling Realtor® to see what the needs are of the seller	

- Needs versus wants
- If your Realtor® won't call, find a new one
- If you do not have a Realtor®, you are allowed to call the selling Realtor® and ask questions
- Knock on the seller's door and inquire about the house

6. Confirm where down payment and deposit are coming	

- Have a plan B for the down payment (never know what could happen)

7. Confirm buying criteria is being met	

- House cash flows well
- Mortgage buy down per year
- Possible appreciation

8. Submit offer with clear intentions and condition dates	

- Present in person if possible
- Reply quickly and clearly if and when they counter
- Do not get emotional about the deal/property
- A property is like a bus …
  there is always another one coming!

BONUS

Different ways to get the deal done:

- Submit two offers
- *One with a higher number and longer possession date*
- *One with lower number and shorter possession date*
- Present in Person
- *Realtor® should introduce you at the sit-down meeting*
- *When it's your time to talk, keep it short and clear*
- *Explain what your goals are for this house*
- *Explain to them your management style and who you will place in their home*

Offer Cover Letter

Letter to Vendor – Cover Sheet for Offer to Purchase

Sophisticated investors, especially in a hot market, put a cover letter on every offer-to-purchase. By duplicating this strategy, it will provide you with many advantages: it opens a clear line of communication to the vendor (reducing confusion), it helps your offer stand out in a multiple offer situation, plus, it has been proven to get more offers accepted at the terms you, the investor, want.

Begin using a cover letter for all your offers (hot or cold market for multi-family or single-family properties); that extra 10% effort will pay off greatly. Here's a template for your use:

Company Name
4, 4444 West Ave NW, Calgary, Alberta T3G 2T5
Phone (403) 444-4545 Fax (403) 444-4343

March 31, 20XX
Vendor's name
Vendor's address
City, Province, Postal Code

Dear <name>,

It is with pleasure that I submit the following offer(s) to purchase your property. As a veteran investor, I find it important to keep the lines of communication open between the vendor and purchaser and trust that you'll find this quick cover note to be helpful.

There are a few things that I'd like to point out regarding the offer(s):

a. You will note that the offer price is exactly what you are asking and there are no surprises in this offer.
b. You will note the dates for arranging financing. We have found that with the busyness of the banks these days, it will take approximately XX weeks to get their written confirmation. The good news is the bank has pre-approved us. The bank tells us the date on the condition should be easily met.
c. We have found a way in which you can defer your capital gains tax over a five-year period instead of having to write the Canadian Revenue Agency a huge cheque when you sell. You do this by creating a vendor take back mortgage that is fully secured against the property. In this instance, you will receive a cheque for $225 every month, plus you are able to cut your immediate tax bill substantially (only for non-principal residence).
d. You will also note that we have put a closing date of November 2, 20XX. This ensures that you are not rushed to move out and you still get the price you want. This also allows us the time to get a renter lined up, someone who will treat your home like it is their home.
e. Etc.

I am very sure that you will be extremely happy with this offer and we look forward to making this a smooth and hassle-free transaction.

Sincerely,
Bob Robertson

P.S. If you have any questions, please don't hesitate to write them down and give them to your realtor. If they are written down I can ensure that you get your questions answered immediately.

Negotiations

The Strategic Negotiator

Most, if not all, successful entrepreneurs and real estate investors are successful negotiators, whether they have any formal training or not. In fact, the reality is, if you cannot negotiate successfully you will have a very difficult time in any business situation. Without knowing some of the secrets, it can be like entering a duel when only your opponent has a weapon!

Some people consider themselves good negotiators because they can, at times, get the proverbial "blood out of a stone." These people feel victorious when they scoop the very last dollar off the table. However, as you'll discover by reading on, these occasional triumphs do not qualify them as master negotiators. More importantly, and more frequently, that strategy does not bring the long-term profits or quality relationships many of us are looking for.

The following strategies and secrets were tested by successful entrepreneurs who documented the process and the methods that worked and those that did not, from entry level negotiations that revolved around relatively small dollar amounts, right through million-dollar figures. In every situation, no matter the dollar amount, the process remained the same.

Throughout the process a system was developed that maximizes long-term profits for the business and created long-term relationships where all parties are happy because everyone is making money.

By learning and using these simple strategies and secrets you will develop and improve long-term business relationships, have the ability to get what you want, help others get what they want, and create win-win situations.

Instead of dealing with yesterday's problems, you can move forward and make the most of your business relationships, secure more money (or other important factors to you), and pursue new and profitable ventures which, in turn, produce even brighter net results in your business and real estate investments.

General Principles of Negotiating

The entrepreneur's key to success

Before we get into the actual strategies and secrets of negotiating, it's important to understand the general principles of negotiating.

Successful entrepreneurs don't just repeat what the masses are saying; they investigate and dig a little deeper. There is an expression "money makes the world go around" and the strategic entrepreneur knows that "negotiations make the money go around."

Many people don't understand that without some sort of negotiation, (a dialogue between someone who has something and someone who wants it) deals would not be signed, contracts wouldn't exist and the engine of the economy would seize up. Hence, money would stop flowing. So, be contrarian and rise above the masses. Start using the phrase: negotiations make the world go around!

What exactly are negotiations?

Nothing is as simple or complex as negotiating. Every desire that demands satisfaction, every want or need that is required to be filled, is a potential situation for people to negotiate.

When people exchange ideas with the intention of creating relationships, confer for agreement and money changes hands, that is negotiating.

There are the obvious negotiating situations: buying a piece of property, buying or selling a car, or haggling with street vendors. In these situations, you know you are negotiating and you can very simply apply REIN's 22 Secrets to Street-Smart Negotiating.

This principle becomes a little more complex when you enter situations that you may not perceive as negotiations. Situations such as: going grocery shopping (they've offered a price and you have accepted it), buying season's tickets for a musical series or sporting team (they've offered you a discount if you bought the whole season and you accepted it), deciding where to go to dinner with your group of friends (trying to fill everyone's wants and needs), driving your car (trust in other drivers, assumptions, and knowledge), and even at home with your family.

Negotiations can be as large and well known as the Israeli/Palestinian peace negotiations or can be as small as buying a used record at a flea market. Negotiations occur every day in both our business and our personal lives. To be successful in either arena, it is vital that you learn how to negotiate.

This is why REIN's 22 Secrets to Street-Smart Negotiating are so useful.

What is negotiable?

You've probably heard it before, but it's important to understand: everything is negotiable. Whether you're buying a car or buying popcorn on the street, you have the opportunity to negotiate a settlement in which both parties achieve satisfaction (a win-win situation). Many people have heard this, but really don't understand it or believe it. All you need to do is try it to see how it can work in every situation. If you don't ask, the answer is always no.

You may question this wisdom. It may be because you've never tried negotiating for an item and just assumed you must pay full price. You may think day-to-day items such as groceries are not negotiable. What if the next time you were in the grocery store instead of buying a single can of soup, you asked the manager if you could buy two cases? You might be surprised at the discount you get!

How negotiable is it?

Suppose you went to a garage sale. You spot a nice table you would like to buy. The price sticker on it says $25. You approach the seller and offer $15. "Sold," she says eagerly, and takes it to your car. All the way home, and as long as you own the table, you would wonder if you could have gotten it for less.

If your goal was to pay $15, consider starting your offer at $13. If the seller had shown some reluctance and said she had to have $17 for it and you had haggled from there to your $15 price, you'd feel successful in your negotiation. By starting with a low first offer and bargaining with the other party, you make them feel satisfied with their sale as well. In other words, it becomes a real win-win negotiation.

How to apply REIN's 22 Secrets to Street-Smart Negotiating

REIN's 22 Secrets to Street-Smart Negotiating apply to each and every negotiating situation. In order to have a truly successful negotiation, you must be creative and find a way to make each rule fit your need or circumstance. Each secret works best when used in conjunction with the others. Be creative and find a way to use them all.

The 22 Secrets to Street-Smart Negotiating

#1 - Do Your Homework and Know Your Options

It sounds a lot like work, but you may be entering into an opportunity that can return huge rewards, and it will be worth it. Before you enter any serious negotiations, you must know your stuff. You should at least have background information and pricing references for the industry or product you are about to discuss.

For example, you go to the office supply store, talk to the owner or manager, tell them you want to give them all your business and ask: "How much of an ongoing discount can you guarantee?" The owners come back with an across the board 10 per cent discount with payment terms of 30 days. If you haven't done at least a little homework, you won't know if this is a good or bad deal. Here is where your preparation really pays off!

In a real estate deal, the same applies. If you can find out a little about the property and the owners, it will pay big dividends. Are they transferred? Forced to sell? Have they had other offers?

Without quality background information, you cannot make good business decisions. In addition, if you enter any negotiations without doing your homework, your chances of being caught in a bad deal increase exponentially.

During your research, pricing knowledge is important and is easy to find. But don't stop there. A little more homework will present you with options you may not have even considered, such as a new and hungry office supplier opening a couple of blocks farther away, or a mail order supplier who provides a great price, door-to-door delivery, and payment terms.

In real estate, talk to other people who are selling in the area. An innocuous question about the house down the street will often give you a lot of useful information.

Keep your eyes and ears open and opportunities will reveal themselves.

If you enter negotiations lacking knowledge of your options, you'll be forced into single issue bargaining (usually over price). By focusing on just one issue, you will end up settling for a mediocre deal. The person with the best information in a negotiation will usually be in the stronger position.

#2 - Set Goals

Before negotiations start, make sure you have specific goals. When you are setting your goals, make them realistic. Include the absolute worst outcome you will accept as well as the best you could possibly get. When negotiating a property, know your bottom price and your top price. When buying a product or service, the worst outcome is that you pay the price they are asking.

Don't just set goals on price, set them for the terms of the deal as well. Often it is more profitable for you to *give in* on the price if you get the terms you want. For instance, in real estate it often makes sense to give the vendor their full asking price if they give you an extra-long closing date.

The clearer your goals are, the more powerful you will feel in the negotiation. Keep your goals in mind while negotiating and do not stray from them.

#3 - Have an Agenda and a Plan

In addition to having goals, it is imperative to have an agenda. You cannot negotiate by the seat of your pants and expect to win. In fact, this is the most important step in any negotiation. Be sure to plan your meeting in advance.

Write down exactly what your goals are and how you plan to attain them. For example: How do you plan to open the negotiation? What will your opening offer be? What do you expect the other party to open with? What compromises will you offer? What won't you compromise on? This can be brief, even take less than a minute, but it is powerful.

As you write these steps down you will see the possible weak areas in your argument. Be prepared with responses to these weaknesses because your negotiation partner will surely spot them and try to use them to out-negotiate you.

Predict what questions your negotiation partner will ask throughout the process and prepare strong answers in advance for each one. If you have a strong agenda, you will come across as prepared and professional, which puts you in a much better bargaining position.

The act of physically writing out your agenda will bring items to the surface you hadn't initially thought of. As you create your agenda, use the 22 Secrets to Street-Smart Negotiating as your guide. Make sure you address all 22 rules in your agenda, thus ensuring you are ready for all situations that may develop during the discussions.

The number one reason people do poorly in a negotiation is failure to prepare an agenda.

#4 - Find Your Point of Power

It is generally perceived that the power in negotiations lies with the person holding the cheque book. But as you'll see, power grows from several different sources. Find the one that fits your role in each negotiation:

Risk-taking power - How risky is this venture to you and your company? If you must have this deal no matter what, then you are working from a very limited power base. On the other hand, if you're willing to walk away from the deal, the power is all in your corner. Desperation does not make for a strong negotiating position.

Information power - People tend to defer to those who seem to be experts. If you gather enough information, you can position yourself as an expert and create a power base for yourself. Your negotiation partners don't have to know that you only started to research the situation last month.

The power of past performance, your track record in business, can be a trump card when dealing with suppliers. Take, for example, how professional you can look in negotiations with an office supply company if you show the owners exactly how much you spent on supplies last year, and what your future projections are.

As you legitimize your company as a player, your comments and requirements will be taken much more seriously. When you're able to offer evidence of past purchase patterns, the other party will do an instant calculation to estimate how much your business is worth to their bottom line. At that point, you've just moved your power rating up a couple of notches.

Co-op purchasing power - Nothing says that the past performance power you harness in the above example has to be entirely your own. By combining the amount of business you do with that of several other entrepreneurs, or similar businesses, you form a very solid position for quantity discounts and other service considerations from virtually any supplier.

By driving your costs down as low as possible, you can also offer better deals to your customers, thereby protecting yourself from competition, while furthering the win-win concept of good business.

The power of a good reason - The first thing to do when looking for the best price on anything is to find a reason why you should be able to buy it for less. Is it soiled or damaged? Is it last year's model? Is it an odd lot number? Are the colours wrong? Does it have to be back ordered? Did you see it on sale for less last month? Is it off-season? Be imaginative. Be outrageous. You don't necessarily have to be logical.

The power of approach – The way you approach the other party can influence the outcome. If you approach them with a hard-nosed take-it-or leave-it approach, they are likely to leave it. If your approach comes from a genuine place that you would really like to do business with them if you can both come to an agreement, the other party is more likely to try to come to an agreement with you.

The power of emotion - Sometimes it isn't the money that's important in a negotiation, it's what the money represents. When looking to sweeten a deal, always look for things that have a high emotional value.

The most experienced (but not street-smart) negotiator might not give up that last $200, but let him picture himself sitting with his son on the blue line at tomorrow night's hockey game and he's putty in your hands (Why do you think so many companies buy those outrageously expensive season tickets?). Once again, both parties leave happy, having received satisfaction from the deal.

#5 - Create a Relationship, Not a Battle

In creating a relationship, you are relying on a psychological principle. People like to associate with people who are like them. They can relate to them. It's very common for ethnic groups, age groups, or even people of similar social status to associate and do business with each other.

To create a relationship, minimize the differences between you and the other party. To do that, you need to search for common ground. As an example:

A seller receives two offers on his property. The realtor, who brought one of the offers, mentions that the buyer is an airline pilot. The seller perks up and starts asking questions: How long has he been flying? What kind of planes? It turns out the seller had been a pilot in the war. The seller ends up accepting the offer from the pilot even though it is $2500 less than the opposing offer.

#6 - Seek the Win-Win Deal

One key to productive business relationships is discovering how to create situations that benefit all parties involved.

Although you enter the negotiations with the intent of getting the ultimate deal, it would be detrimental if you leave no profit in it for the other party. The skillful negotiator is the person who moves his business ahead to success while helping the other parties achieve the same.

As mentioned earlier, many people think that the hard-nosed, take-it-or-leave-it negotiator who squeezes every nickel out of the other side is the best negotiator. In fact, nothing could be further from the truth. Great negotiators always make sure the other side gets what they want in the negotiation.

In a win-lose negotiation, the loser feels dejected, demoralized (energy is low), and if asked if they would negotiate with the individual again, the answer would be no. If they did have to negotiate with the individual again, they would be playing to *get even*. In a win-win negotiation, both sides achieve what they want, while at the same time the negotiation is fun, energetic, and both sides are confident that the deal will hold. Always think win-win.

How can both sides of a negotiation win, you might ask? The answer lies in your attitude and in your problem-solving skills. For both sides to win, you can't subscribe to the limited pie theory, that being the pie is only so big and there is no more.

The pie, in fact, is only limited if you both want the same thing. Different people want different things. In negotiating you can't assume the other person wants the same thing as you. You may be buying on terms while the other person may have a need to clear merchandise. You could buy more merchandise if they could give you good terms. Both sides then would end up winning.

Find out what the other person would like to accomplish first, decide how that fits with what you want, then negotiate a win for both sides.

Use your market research and your industry knowledge to know when you have crossed the line. Think about it first. It is better to focus on creating a relationship that will provide you with long-term profits rather than a one-shot deal. Just remember, effective negotiations are not about nickel and diming each other. The masses believe this to be true; successful entrepreneurs know otherwise.

Throughout the business community, you'll find you're willing to pay a little extra to people you trust to perform, who consistently produce quality work, and who understand your needs and deliver on them. This is also reciprocal. If people know and trust you they are more likely to pay you more. This is where strategic entrepreneurs find hidden profits.

#7 - Find the Decision Maker

Always seek out and negotiate with only the person who has the decision-making authority. You can waste hours of your time negotiating with people who pretend they have authority, only to learn that you must start the process all over again with their superior. Even worse, these people have succeeded in flushing out your position. Your energy has been dissipated, you're frustrated. In addition, you've lost the high ground.

If others, such as sales reps, want to be at the table, that's okay. But be sure to find the decision-maker and include them in all discussions. Remember, you have the right and the authority as a business owner to talk to the people who make the decisions. Use this authority and you won't waste your time, energy, or money.

In a real estate deal, always ask if the party you're speaking with is authorized to make the deal. If there is only one person present, ask if they have a partner. If they do, ask if their partner will support any decision they make. Otherwise, whenever it comes down to the crunch, they will try to refer to the other party: "I'll have to talk to my husband first."

They may even try to use the *good cop, bad cop* tactic. One person takes a likeable, easygoing approach with you, while the other takes a tough stand. The *bad cop* will usually be absent and the *good cop* will say they would like to make the deal, but they know the *bad cop* will never go for it. When this is used well, they also play on your emotions by saying something like, "I took your offer to (bad cop) and she is really ticked at me for even bringing it up. I'm in real trouble now. Can you help me out? Could you give me "$xxxxx?" Don't fall for it and remember to negotiate with reason.

#8 - Negotiate on Your Schedule and in Your Environment

One of the most basic details you can control is the time and place of the negotiations. Always set the time and place to fit your schedule. Know your strengths and pick the time of day when you are most effective.

If you are a morning person, don't negotiate after lunch. Also, remember that the *home team* always has an advantage. Whenever possible, negotiate on your turf or in familiar surroundings. In addition, requesting times and places a little out of the ordinary can show you how committed your negotiation partner really is.

Physical environment and positioning, such as seating arrangements, can affect a negotiation. How you and your negotiation partner are positioned can be key to creating an atmosphere for success.

When the two negotiators are facing the same general direction (sharing the same side of the table or one on a side and one on an end) this creates the atmosphere of working together to come up with an agreement. When the two negotiators are sitting on opposing sides of the table (face to face) this creates an adversarial atmosphere. Always avoid the adversarial position when negotiating.

#9 - Separate the People from the Problem

To succeed at the game of negotiation, you must discover how to focus on the facts at hand and not let the other person's personality affect your decisions. Try viewing the situation from the other person's perspective. Put yourself in their shoes and figure out how the situation looks from both sides. You will then have a clearer view of the problem, and can focus on the solution.

If you are in a long and protracted negotiation, try a little role reversal. After you have ended for the day, you play the part of your negotiation partner and have someone you know and trust play your part. The insights you gain from this short exercise will prove to be invaluable the next time you meet face-to-face with your negotiation partner. Make notes of these insights, they often will prove to be the breakthrough you were looking for.

#10 - Focus on Motivations, Not Positions

You know your motivations; they're the reasons why you have taken the position you have in these discussions. These motivations might include your expected resale price, your knowledge of industry standards, or your need to get 60-day terms. A very powerful key to unlocking a deadlocked situation is to figure out the other parties' interests or motivations and how to fulfill them without jeopardizing your own position.

The way to uncover a person's motivations is to ask good questions and listen very carefully. Take notes while they talk, this is a powerful listening strategy that makes them feel that their point is important. Then read back their concerns. Use the phrase "This is what I heard you say were your biggest concerns: _________."

Once you've identified their motivations, use this information to your advantage. Look for areas where you can accept a compromise. Start by giving in on positions that are important to the other party but not to you. For example, in a business negotiation can you give them payment up front? A delivery schedule they need? A volume discount? Or can you throw in some type of free reward or bonus?

If it is a real estate deal, you might give them the exact possession date they need. Or, if they are in financial trouble, point out how selling quickly will save their credit rating even though it may not be the price they were expecting.

By conceding early on the points that are unimportant to you, you'll create an atmosphere of agreement. You have then created a situation where the other party will want to reciprocate and offer a compromise for concerns that are important to you.

Of course, you must present your concessions in such a way that they are perceived to have value. For instance, if your motivation is to get the best price and you discover that the other party values being paid in cash, begin by stating:

> "I understand you would prefer to be paid in cash. With my other suppliers, I always work with 30-day payment terms. I'd be glad to make an exception and pay you cash in advance. But to do that I'll need a discount on the price you are asking."

In a real estate deal, if you discovered that the seller was pressed for a quick sale and you wanted to get a good price, you might say:

> "I understand that getting the house sold and moving to your new city in 30 days is very important for you. If I were to give you the exact possession date that you require, what kind of a price would you be willing to sell for?"

Notice how in both cases you have filled a need of theirs and have provided them with a situation in which they can reciprocate, and you did it all without compromising your position.

#11 - Search for Agreement

The phrase "do you agree?" is a powerful tool. Use it often, and use it early, to encourage the other party to keep repeating the word yes (tie it in with #10). Wherever possible, create empathy as you look for room to negotiate by trying to discover the areas where both sides agree or share interests. Get agreement on small points. It's like putting small weights on one side of a balance scale. Eventually, you'll get enough weight on your side that it will carry the big negotiating point.

For example, in a real estate transaction, you might reach agreement on the possession date, the amount of the deposit, the financial terms, and appliances staying with the property (the small weights). You've come so far in the negotiation, all you have to do is settle on the big negotiating point - price!

Opportunities exist in every negotiation. All you have to do is find them. They may relate directly to the business at hand or involve mutual interests such as a sport, a common charity, a fondness for the arts, or kids the same age. When you establish areas of empathy and agreement, negotiations become smoother and more amicable. This is when long-term and profitable business relationships are formed.

#12 - Listen Only to Reason, Not Pressure

Unskilled negotiators will often use pressure tactics like sale ends Tuesday, only while quantities last, this offer is only good today, or the worst one, that's the deal, take it or leave it. These high-pressure tactics are designed to manipulate and have no place in negotiation.

In negotiating, only use reason and logic to state your position and only be open to reason and logic from the other party. Yielding to pressure sets a bad precedent. From that point forward, the other party will always take advantage *of the deadline* excuse. If you feel yourself coming under undue pressure, it is important to invite the other side to state its reasoning for their stand or be ready to call their bluff.

#13 - Never Assume

When you assume something, you set yourself up for major surprises. You must never forget that what you assume is only a guess or a probability, not a fact. Try not to let points pass that you're not clear on without addressing them.

For example, you assume that paying by credit card is okay. After all the negotiations are complete, the deal is done, you're ready to pay and you whip out your credit card only to find out they only accept cash.

Your supplier assumed you were discussing a cash price and now you're back at square one. Never attempt to close a negotiation before you have firmly established details for the following points:

- Price
- Availability
- Delivery costs
- Payment terms
- Quantity
- Warranties
- Expected performance

Once you close your negotiation, whenever possible, get it in writing.

#14 - Be Patient

Whenever possible, don't negotiate under time constraints. The 80/20 rule applies in negotiations as well: 80% of the concessions happen in the final 20% of the negotiating time. Act as though you have all the time in the world, even if you don't. Keep most of your concessions to the end. As in poker, play your hand slowly and deliberately. If you do find yourself under time constraints, negotiate the major items first.

#15 - Be Confident

People tend to attack weakness. Your best defense is to show only strength. After some preliminary discussions, start the *real* negotiations by saying something like "Well, usually when we do this we …." The other party will perceive you as a veteran at this type of deal. It also legitimizes any further statements you make regarding past performance volumes, past purchases, and past sales.

Once you get very practiced, you can feign signs of vulnerability in areas where you want to direct your negotiation partner. Much like the hockey goaltender, show them the corner, knowing full well they'll shoot there. What they don't know is that you want them to shoot there because that's where you excel at stopping the puck.

#16 - Set the Pace

You will always have specific points you want to make in a negotiation, but don't make them all at once. If you end up revealing everything too soon, you won't have anything left to trade later in the discussions. When you do offer information, be selective. Only reveal information that will further your cause.

Information is power, but it must be used wisely and sparingly. For instance, it can be very useful early on to reveal information that makes your negotiation partner feel comfortable, such as: "I really want to buy in this neighbourhood." Or you might offer something that is important to the other party, but has no bearing on your goals, such as: "In my opinion, you have the best quality product on the market. I hope we agree on terms so we can do business."

It isn't difficult to make your negotiation partner perceive they are in control, even though it is still you who is directing the pace of the negotiating process.

#17 - Don't be Greedy

Pushing the negotiations to the very last level is like trying to wring the last ounce of blood out of your partner. It can blow deals, destroy relationships, and ruin businesses. And it is totally unnecessary. If there is not enough fair profit in the deal for both parties, move on to something or someone else.

Remember, if you are fair with people, they'll be fair with you.

#18 - Silence is Golden

This could also be said as: when in doubt, say nothing! When you encounter a negotiation partner who won't budge from their position, sometimes the best tactic is to say nothing. This is especially effective if you are in a purchasing position. Silence creates an air of stalemate and, most of the time, the other party feels obliged to break. A rule of thumb is: he who talks first loses. Great salespeople know this. They ask you a question such as, "would a possession date of 30 days fit your plans," and then they are quiet.

Sometimes this silence can last for what feels like an eternity, and it truly can be! This pause gives your negotiation partner time to consider what they can live without to close the deal. If you must, bite your lip to keep from talking, but keep silent. Leave the ball in their court.

#19 - Be Willing to Step Away from the Table

This is one of the most powerful cards you have in your hand as you play the negotiating game. It gives you the ultimate power. You must be willing to walk away from a deal if things are heading to a conclusion that does not fit your goals. To be willing to walk away, you must have clearly defined your negotiating goals. Such goals will tell you exactly when it's time to walk away.

When you do walk away, however, leave the relationship on a high. Use a *more in sorrow than in anger* approach. In other words, leave the door open for the negotiation to continue if the other party chooses. You might say something like:

> "I'm sorry, but that's far more than I want to pay. I really would like to do business with you but I can't under these terms. If you can come up with another way we can complete this deal, I'd be glad to listen. Call me."

This shows your negotiation partner that you are serious and won't be manipulated into making a bad decision. Once you have made it clear it doesn't matter to you if you buy from them, you have made your negotiation partner aware they've crossed a line.
Allow for a pause before you physically leave the negotiation (see also #18). The pause should be long enough for the other party to invite you to reconsider your decision based on whatever new information they are now ready to provide. However, by being firm, know that you have just taken the position of power in the process.

As an aside, the first time you do walk away, you'll be pleasantly surprised at how good it feels. Walking away from what could have been a bad deal is very empowering. Learn to do this and you'll never get caught in a bad deal.

One thing to remember, and this is critical, only walk away if you haven't completed an agreement. If you have come to an agreement, both parties have negotiated well and the deal has been confirmed on both sides, so the door to walk away has closed. This is why it is critical that you go in with your eyes open, and be willing to walk away before a final agreement is achieved (see also #17).

#20 - Whoever Mentions a Number First, Loses

This is true when negotiating not only price, but also delivery, possession, or terms. Being a Street-Smart Negotiator, you've done your homework, you know exactly your top and bottom prices, and you know the payment terms you need. With this work done, there is no need for you to mention these figures first. Just sit back and wait. Sometimes the other party may need a little prodding and, if it comes to that, just outright ask for their price, terms, and delivery schedule.

A few techniques to get the other party to put their price on the table first includes:

Trial balloon – You say something like, "Would there be any sense in looking at an offer of $xxxx?" If it is a good price, the other party will say yes. If not, they may divulge their number, or say no. If they say no, you can say, "I didn't think so, but what would be a good number for you?" This will usually get them to state their price.

Disinterest – You use this by not showing a lot of interest in what they are selling: "This isn't really the type of property I was looking for. Although, I suppose if the price were right I might be interested. What would you let it go for?"

Greedy start – You use this by making an offer that is crazy low. It usually brings about a startled reaction from the other party. You then say, "Well, what did you have in mind?" Psychologically, they will choose a figure closer to their bottom line because they will try to minimize the difference between the two numbers. Caution: don't use this technique unless the relationship is quite strong. It can cause anger in the other party and they may take a *position* or refuse to negotiate further with you.

By not mentioning a price, it usually puts the onus on the other party to do so. In addition, when they do, they may state terms that are better than those you were prepared to ask for. Also, on a surprising number of occasions, they will even start off with a price already lower than what you were prepared to pay. So, silence can truly prove to be golden.

For instance, your goal was to pay $30 per unit and have 30 days to pay. Because the supplier is not aware of your needs and is desperate for the sale, he may enter with a price of $28 with 30-day terms. Of course, you won't accept this right away. You'll counter with $26.50 and 60-day terms. The net result is you could end up paying only $27 with 45-day payment terms! Less than you wanted to pay and with better terms.

#21 - Always Amuse, Never Abuse

Never abuse your negotiation partner. The adage of catching more flies with honey than vinegar is very true in both constructive negotiations and the building of long-term business relationships. You'll get much farther by using the line "I simply can't afford to pay you what you think this service is worth," instead of using the adversarial: "You must be kidding, you want me to pay how much for that terrible service?"

#22 - Follow Through

It is imperative that you live up to your end of the agreement. When you negotiated the deal, you likely promised something, be it volume, money, or action; therefore, you must complete your part of the deal.

Not completing on a deal you've negotiated creates a precedent for the other party to default on their responsibilities. This results in a very awkward, time-wasting, and non-productive relationship. In addition, the other party in the deal probably has friends and business contacts who are sure to hear about your inability to live up to your commitments. Bad reputations are easy to get and hard to lose.

Bonus Tips

Negotiating on the Phone

Do:

- Talk less. The less you talk, the more your negotiation partner will feel the need to fill the space.
- If your negotiation partner calls you, just listen and take notes. Then call them back with your side of the story. This will allow you time to prepare a proper response.
- If you must initiate the call, develop a checklist to avoid omissions and assumptions.
- Re-state agreements in your own words and confirm that this is what is being agreed upon.

- Have an excuse ready to break off the conversation. This will allow you to bow out gracefully if needed.
- Be prepared. Don't dismiss preparation just because this is a phone call instead of a face-to-face meeting. Telephone negotiating can work, but only if you are prepared.

Don't:

- Push yourself into a quick decision. Telephone negotiating can create a false sense of urgency where parties feel pressured to close the deal.
- Negotiate an issue to conclusion until both parties understand the process for solidifying the deal. (e.g. How will things get into writing? Lawyer? Confirming letter? Email vs. phone orders?)
- Negotiate when you are involved in another action (in a meeting) as you will not be completely focused on the negotiating process.

Case Study

REIN's 22 Secrets to Street-Smart Negotiating at Work

To pull this all together, here is a case study example from a business owner showing you how these secrets work in concert to create power and profits for your business. You'll be able to identify most, if not all, of the secrets:

In many businesses, computer hardware costs are a major monthly expense. Several months ago, a business owner decided to put REIN's 22 Secrets to Street-Smart Negotiating to the test to improve this area in one of her businesses. She already had a tremendous deal set up with one supplier, but the supplier was now so busy they had a hard time delivering product when she needed it. So, she needed a backup that could provide her with some comfort around the cost control issue.

Since she already had such a great deal, she decided to set this as her minimum goal. She needed a supplier who would perform to the standards she had become accustomed to, provide the quality of product that she required, and the supplier needed to provide it at her current cost or better.

A little market research identified three possible contenders. She emailed a scenario for each of them to bid on. After some time had passed, she received quotes from all three, including estimated prices and delivery schedules. She set up 15-minute meetings with the owners of each company and went in prepared with all her ducks in a row.

She scheduled these meetings at 9:00AM - a time when her energy level is at a peak - on three consecutive days. She had printouts of the last couple of years of her hardware purchases, background market research, and she was prepared to place an order that day if all went well.

All three discussions began the same way. First, the suppliers wanted to know if she placed similar orders often, like the one she asked them to quote on. They also wanted to know what her volume was over the year, who she used now for hardware, and other questions they had designed to test her legitimacy.

By being prepared, she knew she was in the power position. She showed them her list of last year's figures. She said things like: "we usually structure all our contracts on 45-day terms," and "we usually request written quotes before any order is placed."

She told them their price quotation was much higher than what she was used to paying, but also told them that this was expected considering they didn't know her business history. This reduced the need for them to give a bunch of excuses to explain their higher prices, and provided them an opportunity to re-quote.

The next step was to sit back and wait. One of the suppliers was not willing to play; he said that this was his quotation and she would have to live with it (the sales prevention department).

The business owner knew she had many other options, so the supplier's reaction didn't faze her. She simply walked away and wondered how someone in business could be so set against creating a win-win deal?

When the smoke had cleared, the business owner found a supplier who was willing to give her an even better deal than the one she had with her current supplier. A better price, the same terms, and they promised to pick up and deliver at her office. Plus, they had the equipment in stock to ensure her required delivery times were met. The market research truly was worth the effort.

To solidify the relationship, the business owner immediately put in the order she had requested a quote for and she was on her way. She now had a supplier who could fill all of her hardware needs, including quality, delivery times, price, and terms. This exercise saved her company about $5,000 in six months. Not a bad return on about 20 hours of work!

This business owner has continued using both suppliers, and because she is more confident about delivery times and quantities, she is now quoting (and getting) much larger jobs and both suppliers are ecstatic.

Closing Notes

There is a tactic that many non-Street-Smart Negotiators use, and that is to play one supplier against another. Never play that game. It is not proper business etiquette and it will never lead to long-term and profitable relationships. It can, and will, ruin your reputation and that of your business. This is not to say that you shouldn't, every now and again, do a little market research to ensure you're still getting a deal that you can profit from. However, don't risk a good long-term relationship over a couple of hundred dollars.

This list of REIN's 22 Secrets to Street-Smart Negotiating may seem a little overwhelming at first read, but once you begin to use these tools and they become a part of your everyday life, you'll always be in a position of strength. Furthermore, as you enter more and more negotiating situations, you'll get better and better and you'll profit more and more!

To help you develop sharp negotiating skills, keep a summary list of REIN's 22 Secrets to Street-Smart Negotiating close at hand. Keep it in your phone, make it the wallpaper for your device, and put it on your desk. If you can commit these secrets to memory, they will become second nature.

To reach the level of success you want, master the art of negotiating for long-term results. You need to understand the *poetry* of negotiating, and you need to take negotiating finesse to a whole new level.

So, the next time you're trying to put together a complex, but profitable real estate transaction, or you're looking for a new supplier to allow your business to have an even brighter bottom-line, use this system to create long-term profits and freedom, thus allowing you to prosper, and providing you the time to pursue even more profitable ventures!

Step 13

Completing your Diligence

All Properties Diligence Checklist

Completing your detailed investigation is a MUST for any property you are planning on purchasing, from old properties to new builds. Strategic investors understand that limiting diligence is adding great risk to your portfolio. Diligence begins with the REIN Property Analyzer, followed by this checklist as a prompt for you to ask the critical questions. Do not skip any steps.

If you are purchasing a condo, use this form plus the Strata Condominium Townhouse Diligence.

Property Address: ____

Town: ________________________________ Province: _______________________

Source: _______________________________ Phone: __________________________

Location:

- How many checkmarks does the area get using the Property Goldmine Scorecard? ______ (9 checks or more is best)
- What is the nature of the local economy? Diverse or Single Industry? _________
- In what area of town is the property located? Older Newer Transitional
- What is the type and quality of the surrounding properties?
  - Majority Type: ____
  - Quality of property versus rest of neighbourhood: ___________________
- What amenities and services are nearby?

  Transit Shopping Schools University/College Major Employer

Building:

- What is the overall curb appeal? (scale 1 to 10) 10 = rent ready __________
- What is the overall interior appeal? (scale 1 to 10) 10 = rent ready __________
- How well has the property been maintained? (scale 1 to 10) __________
- Has a complete professional inspection been completed? YES / NO
- If no, when is it scheduled? __________
- Does the property meet the minimum housing and health standards? YES / NO
- Are taxes and other charges current at city hall? YES / NO
- Are there any outstanding work orders or compliance orders? YES / NO
- Are there open or past complaints registered to the address? YES / NO
- Are there any deferred maintenance repairs required in the next 12 months?
  - If YES, list here: ____
  - What is the estimated cost of repair: $______________________
- Are there any appliances you need to purchase? YES / NO
  - If yes, what are they?
    Fridge Stove Dishwasher Washer Dryer Other_____________

- Has a title search been completed? Do this early not at closing YES / NO
- If yes, did it bring up any issues that need to be explored?

  ____
- Does the property comply with the zoning bylaw? YES / NO
- Is a Real Property Report (site survey certificate) available from the vendor?

  YES / NO
  - If YES, is it acceptable to your lawyer for closing? YES / NO

Financial:

- If currently a rental – are financial statements available for the property

  YES / NO
- What is the expense to income ratio? _______________ (35 – 55% is workable)
- Are the numbers believable? Do they fit market norms? YES / NO
- What is the current rent on the property? $__________________

  (If not currently rented, what should it rent for when analyzing the market?)
- What are rents for similar properties in the area? $__________________
- What is the vacancy rate history of the property? ______%
- When vacant, does it seem difficult to re-rent? ________
- What is the vacancy rate history for the area? ______%
- How does that compare with the property's history? ________
- Do you have a banker/broker to assist you with the financing on this property?

  YES / NO
- Will your insurance company insure this property at regular rates? YES / NO

Property Management:

- Who will be managing the property? ____________________________________
- If it is you, is there a reliable company when you want out? YES / NO
- Does the potential tenant profile in area fit my target market? YES / NO
- Does current tenant fit your future tenant profile? YES / NO
- If tenant has lease, when does it expire? _________________________
- Do you plan on keeping the current tenant? YES / NO
- Do you need vacant possession to make it fit your system? YES / NO
- Can you increase the annual income? YES / NO
  - If yes, how?

    Increase rents Add Legal Suite Rent Garage Other: _____________

My intention for this property is:

- Hold it for cash flow
- Short term buy & hold
- Renovate and sell
- Other: ____________________

Strata, Condominium, and Townhouse Diligence

In addition to completing your Property Goldmine Scorecard, Property Analysis Form, and All Properties Diligence Checklist, when purchasing a condo, townhouse, or group of condos there are additional factors to consider.

To complete this checklist you will need to obtain and review the following: (pay special attention to how rentals are treated)

Property Address: ____

Town: ________________________________ Province: ________________________

Source: _______________________________ Tel: ____________________________

- Review current copy of bylaws and rules in effect
    - Is there a rental restriction in place? YES / NO
        - Maximum number of units:___________
    - If you purchase, can you legally rent yours? YES / NO
    - Is a large condo damage deposit required for rentals? YES / NO
        - $_______________ (required by Condo Corp. Bylaws)
    - Is there an age restriction on residents in building? YES / NO
        - Age:_____________
    - Is there an easy owner grievance arbitration procedure? YES / NO
    - Is it required to notify the Condo Board of rentals? YES / NO
- Have you read the last two years of the Condominium Board's AGM minutes and are there any hot issues that have not been resolved? YES / NO
- Have you reviewed the last six months of monthly Condo Board meeting minutes? Is there discussion of anti-rental or capital improvements showing up? YES / NO
- Review the annual condo budget
    - Compare last year's budget to actual operating costs. Was the budgeted cost accurate?
    - Review the upcoming year's budget - does it have a built-in buffer for surprise costs?
- Review the condominium's financial statements to confirm an adequate reserve fund to cover upcoming required repairs.
- Condo Reserve Fund Study
    - Is the study current? (last five years) YES / NO
    - Are there any current or pending cash calls? $__________ YES / NO
    - Does the reserve balance match the financial statements? YES / NO
    - Do the contributions match budget and financial statements? YES / NO

- Condo Corp. Insurance and Your Condo Landlord Insurance

  In all cases you must purchase additional insurance to cover your unit/tenants and suite improvements. The following are questions for the Condo Corporation's Insurance only:

  - Is the policy adequate? YES / NO
  - What is the deductible on the Corporation's insurance? $ ____________
  - Does the policy have stated exclusions to rental owners? YES / NO
  - How much extra coverage do you plan on adding? ___________________
  - A history of insurance claims on the strata common insurance

  You should also speak with representatives of the Condo Board to get a feel for the atmosphere of the building/complex. They are required to tell you if there is any pending litigation against the condominium corporation.

- BC - Form B Information Certificate for the property

Building/Complex Overview:

- What is the type of building?

  Townhouses Walk-up High Rise Other______________________________

- What is the age of the building/complex? ____________________________
- How many units are in the building/complex? ___________________________
- What is the condition of the building/complex (scale 1 – 10) _____________
- Is there a relatively recent Phase 1 Environmental Study available? YES / NO
- What is the ratio of rentals to owner occupied? ___________________________
- What is the owner profile of the building/complex?

  Families Professional Retired Students Other:___________________

- Are there any amenities that add to the condo fee costs? YES / NO

  Gym Pool Hot Tub Clubhouse Other:______________________

- When was the roof last inspected? Are there any reported water leaks or water leak repairs? YES / NO
- Are there decks and balconies, and when were they last maintained?
  ___________________________ YES / NO
- What type of siding or cladding is on the building? Has it ever been repaired or replaced? If yes, why? (See Building Envelope Renovations in the next section.)
  _________________________ YES / NO ___________________________
- How old is the plumbing system? When is it due for replacement?
  YES / NO ___________________________
- Are there any deferred maintenance issues pending? YES / NO

  - If YES, review and estimate total cost of:

    - Roof replacement or repair $____________
    - Mechanical $____________
    - Interior or exterior refurbishment $____________
    - Post tension deterioration $____________
    - Parking lot resurfacing $____________

- Intercom system repair/replace $____________
- Lobby refurbishment $____________
- Elevator repair/replace $____________
- Other:______________________ $____________
- Engineer's or consultant's reports on the property $____________
- Depreciation reports $____________
- Building envelope reports $____________

- If repairs are pending:
  - find out what special levies have been charged or are planned
  - get a copy of the engineering report from the strata council and determine whether the repairs will be done by a building envelope renovator licensed by the HPO, and,
  - find out whether there will be warranty insurance on the repairs and, if so, what coverage will be provided

- If repairs are underway:
  - find out what special levies have been charged or may be needed in the future, based on a work plan approved by the owners
  - find out whether there will be warranty insurance on the repairs and, if so, what coverage will apply, and,
  - find out when the repairs are expected to be completed

- If repairs have been completed:
  - get the engineering report and find out whether the repairs were done by a Licensed Building Envelope Renovator
  - find out whether there is warranty insurance on the building envelope repairs and, if so, what coverage applies
  - find out when the building envelope warranty insurance expires, and
  - find out whether the owner of the strata lot being purchased has paid all of its assessments related to the repairs

Parking & Storage:

- What is the type of parking?

  garage carport underground other_______________________________

- How many parking stalls come with a unit? ____________
- Are they brightly lit and convenient (if not, you will experience increased tenants turnover) YES / NO
- Can you rent additional stalls? $_____________ YES / NO
- Is there adequate on-site visitor parking? (if not, increased tenant turnover) YES / NO
- Do suites come with extra storage space outside of the unit? YES / NO
  Type:________________

Condo Fees:

- What is the current monthly condo fee? $____________
- Does it include utilities? YES / NO

Heat Electricity Cable Other: ____________________

- Is it appropriate for the type of property in the city? YES / NO
- Are there any increases scheduled? $_______________ YES / NO
- Are there any current or pending special levies? $__________ YES / NO

Management:

- For rental specific buildings, read the Rental Management Contract. Speak with the management company representative and on-site managers (if any) to get a feel for their thoughts on the building/complex
- How is the building/complex currently being managed?
  Professionally Self-Managed
  - Name of management company:___________________________________
  - Contact Info:____
- Are the contracts coming due for negotiations? YES / NO
- Is the building's maintenance and cleaning up to your standards for attracting renters? YES / NO
- Are management costs slated to increase in near future? YES / NO
- Is there an on-site manager? Quality:________________________
  Professional or needs improvement YES / NO

Rental Pool (if applicable):

- Is there a rental pool in place? YES / NO
- What is the unit factor for distribution of pooled rents? _____________
- Who manages the pool? _______________________________________
- What is the rental pool management fee? ____________%
- Can you participate? (read the guidelines) YES / NO

Extra:

It may be necessary to submit your request for the documents in a written format. If there is a problem at a later date and a document has not been disclosed, it may be necessary to rely on your written request for documentation.

Completing your Diligence: Building Inspections

How to Choose a Home Inspection Company

Not all home inspection companies are created equal. Consumers often rely on local inspector association memberships or licensing to assure them that they are getting a qualified inspector. While licensing and trade association membership is a good first step in evaluating an inspection firm, it's not the only qualification to look for. Most licensing or inspector associations do not require professional liability insurance, annual re-testing or on-going technical support. The following list of credentials has been prepared to help consumers evaluate and select the most qualified home inspection service.

Inspection Guarantees:
The company you select should stand behind their inspector's work. Such a guarantee assures you that the inspector was trained, and that a thorough inspection was performed.

Questions to Ask:
Does your company stand behind your inspection reports?
Does the company include a complimentary written guarantee with each inspection report?
What protection does your company offer against deficiencies found after purchase?

Formally Trained or Certified Inspectors:
There is no one background that fully trains an individual for all the different conditions that may exist in a home. Regardless of the technical background of the inspectors, all home inspectors should be required to be trained in home inspections, thus guaranteeing their house knowledge.

Questions to Ask:
What kind of formal training do your inspectors receive?
What is the extent of their ongoing training?
Are your inspectors certified?

Reputation:
The company you select should have solid experience and enjoy an impeccable reputation for integrity and thoroughness. Only years of service can achieve those goals.

Questions to Ask:
How long has the company been in the home inspection business?
How many inspections have they performed?
Is the company a member of the Better Business Bureau?

Insurance:

One of the most important credentials to look for in selecting a home inspection company is their insurance coverage. Errors and Omissions (E&O) insurance is like malpractice insurance to cover inspector negligence. General Liability insurance protects you should the inspector damage something (like an expensive urn) while at the inspection site. Employing an inspector without these essential insurance policies shifts incredible liability to you, the buyer.

Questions to Ask:
Are your inspectors covered by E&O insurance?
Does the company carry General Liability Insurance?
Do inspectors have Workers Compensation Insurance coverage?

On-Site Report:

The home inspection company you choose should encourage your attendance on the inspection and should provide you with an on-site report on the findings of the inspection. You should verify that all the major elements will be accurately described in the report and not just rated as functional or not functional. Your inspection report should give the approximate ages of all the major elements of the home as well as an estimated life span of those elements.

Questions to Ask:
Can I accompany the inspector on the inspection?
Will you provide me with a professional inspection report immediately after the inspection?
Will your report reflect the ages of all the major elements?

Guidance After the Inspection:

The home inspection service should offer you additional information beyond the home inspection regarding home repairs and maintenance. It is estimated that every home will require one to three percent of the cost of the home in annual maintenance.

Questions to Ask:
Does your company provide me with any post inspection home maintenance information?
Does the company have a fulltime technical staff to help us with post inspection advice?
Does the company offer a useful website to help owners manage appliance maintenance and servicing?

Step

14

Working with the Bank

The Strategic Real Estate Investor's Guide to Financing

Essentials for Getting a "Yes" from Your Banker

As an investor or business owner, you will quickly discover that a strong relationship with your banker or mortgage broker can make you very wealthy. In this special report you will discover the strategies that many of Canada's most successful real estate investors have been using to build these critical relationships based on mutual understanding and integrity.

Yes, it is true that the ability of an investor to get financing is in a state of constant flux. You will discover that you must adjust to the current market conditions, whatever they may be. In some cases you will experience a period of time when financing seems next to impossible, while during others you won't believe how easy it becomes. The strategic investor understands and studies the ebbs and flows of the market and then uses these cycles to their advantage rather than as excuses.

This special report, developed exclusively for the REIN's ACRE Program, is designed to lay out an investor's options and action steps. Which strategies to use and which strategies to skip will be determined by the current conditions in the financing world. In some cases a strategy will work for months in a row, only to be shut down as lender guidelines change. Don't get discouraged, get strategic, and shift your strategy to keep moving forward.

The complete system is revealed in this special report. The Sandbox Rules may seem like an odd subtitle; however, when you've been working with banks and bankers for as long as we have, you'll quickly discover that there are many different rules that you must live within, and the rules change depending on what you are trying to do. In other words, whenever you change sandboxes (i.e. from getting a mortgage on your personal residence to getting a mortgage on a rental property) the rules change.

Remember, mortgage lending guidelines may not always make sense to you, and at times they may seem frustrating; however, once you learn to work within them, building your portfolio becomes a whole lot easier. A banker or mortgage broker familiar with working with real estate investors will quickly become one of the best allies you have in real estate.

Long-Term Relationships are Key!

At this point we want to stress that the long-term relationship you develop with your banker or broker will be critical in the overall success of your real estate investments. It is for this reason that your credibility and integrity as a sophisticated real estate investor are critical.

In today's financial world, banks have become very leery of fraudulent activity and unfortunately, the majority of the fraudulent activity in real estate transactions which have taken place over the past few years has been amongst poor (both morally and financially) real estate investors. As such, bankers and brokers have had to increase their due diligence on each file when working with investors, and are digging for more information than they would have in the past. Real estate investors, looking to develop a professional portfolio of properties, represent a very small percentage of the mortgage market. So, in turn, the number of brokers and bankers who have the expertise and contacts to help you develop your portfolio also represent a small percentage of the industry. This is why a sophisticated investor who understands the Sandbox Rules, and follows the system, will stand above the crowd and have a much better chance of having their deals approved. You should never cross into the grey area that many believe you need to do.

Avoid (Intentional or Unintentional) Fraud

Never commit to anything that even smells of bank fraud. The truth is, the biggest reason investors and brokers commit fraud is because no one has shown them a legal way to accomplish their goals. The second biggest reason is that they don't even know when they are committing fraud. How do you identify if you are getting close to the line? It's rather simple. Look at your deal, and if the only way you can get the financing you want is by withholding a critical piece of information, or providing a piece of information that is not true, then you have entered the dangerous grey area.

For instance, if you do not plan on moving into a property do not sign an affidavit or declaration saying that you are, no matter what anyone tells you.

In fact, you should run away as fast as possible from any banker or broker who asks you to sign such a document if they have the full knowledge that you are not going to move in. This is deep into the grey area, an area that borders on bank fraud. Getting financing using these types of not quite accurate declarations is not how long-term wealth is created, and not something we recommend you even consider. Think about the potential repercussions that have occurred, and continue to occur, to people who have gone down this road: jail time, your picture in the newspaper as a fraudster, your mortgages all getting pulled, and building a reputation of fraudulent dealings so you'll never get financing again in the future! Once your name is placed on a national fraud file system, such as Redex, it is on there for life.

These fraudulent strategies are taught by others who don't understand the implications, or worse, do know, and decide to ignore them. Your job is to ask, "If I can't reveal all of the pieces of the deal, what's wrong with this picture?" Another important point to remember is that the repercussions all fall back on you, not the person who told you to sign the inaccurate document (they likely get off scot-free).

CMHC and major banks have teams of investigators digging in the files to uncover potentially fraudulent mortgages and are especially focused on those claiming their loan is for an owner-occupied purchase. They are looking for people who say they're moving in, but actually are putting renters into the property. In fact, you can now find them knocking on doors of not only the property you purchased, but also neighboring properties, asking questions about the new neighbours.

To be brutally frank, there is no reason to enter the grey area; if someone is pushing you in that direction, look behind the curtain and see whether they are just being lazy, or they are uninformed. Either way, run away as fast as you can. Banks and brokers want to finance a deal, that's how they earn their income. Build a strong relationship with an experienced rental property broker or banker using the systems we are giving you in this book and it will prove to be the most profitable relationship you'll have in this business.

Key Take Always:

1) Never sign a document that is not accurate
2) Always remember financing rules are in a constant state of flux
3) Strategic investors keep moving forward by shifting with the changes
4) Novice or veteran, know which sandbox you're playing in

Should I use a Banker or a Mortgage Broker?

Yes!

The truth is, in the current lending environment, you're going to need to learn how to work with both brokers and bankers. An investor looking to build a large residential real estate portfolio will not be able to do so at a single bank. As such, the savvy investor will need to learn how and when to work with a good broker and when it's time to revert to using a bank.

Strategic investors tap all financing resources, but they do it in an organized order. They finance their earlier properties through more difficult channels, with banks that have number of property limits or tougher approval rules. Then they move to their own personal bankers or work directly with banks when the going gets a little tougher. It is important to never waste an easy approval process early, and to instead save those for when your portfolio begins to grow, and obstacles arise.

Mortgage Brokers do not work for a single bank which allows them to look at all options from all banks to determine the best strategy for you. The best part of using a broker is that unless you are getting a commercial loan or private money, the banks pay a finder's fee for bringing them new business. So, in fact, you are still dealing with a bank but you are getting the advantage of using an un-biased broker to shop the market on your behalf at no cost. A quality mortgage broker who understands the intricate steps to building a real estate portfolio is a critical part of any real estate investor's team. They can take you to the right lenders in the right order and help you get further along before hitting any walls with financing. A good mortgage broker will create a financing plan that allows you to grow your portfolio. The plan should identify the best lenders at every stage, the stress points you may encounter, and the solutions that will allow you to continue growing.

Not all mortgage brokers are alike! Recent stats show less than 20% of all mortgage brokers control nearly 90% of the market.

A quality mortgage broker is one who has extensive experience in getting investment real estate deals financed. Right now, due to the regulations in many of the provinces, you will find literally thousands of people calling themselves mortgage brokers. Your job as an investor is not to grab the one who is closest to you, or a relative. Remember, real estate investing is a business and you need a strong team to help you succeed. That is why we highly recommend that you find a mortgage broker who truly understands investment real estate.

If you currently have a solid relationship with a bank and they keep saying yes to your deals – then by all means, don't change that. But keep in mind that all banks have a cap on the number of properties per investor and/or the aggregate total of money that they can lend to you. In other words, your personal banker may well be able to do wonderful things for you at a certain level, but depending on the extent of your goal, they will likely reach a point where the bank says, "I'm sorry, you have reached the maximum amount that we are comfortable lending to you." That ceiling or cap could be three properties, or it could be $3 million – either way, most investors hit it. So, the smart thing to do is work with a broker as well so you have a game plan in place for when that day comes; you avoid the problem of having been painted into a corner. Using the wrong bank at the wrong time could be the difference of investing in 10 properties or 25 properties.

Some people just can't qualify for a mortgage no matter how good a system they are using. It could be anything from a poor property, right through to a poor credit history. However, know that there is an answer to every situation. In fact, many who have used the sandbox rules system you are about to discover have come back to us and said that, even though the banks have said "no" in the past, these same institutions were lining up to say "yes" just because they learned the rules.

Understanding The 6 Sandbox Rules

Learn why bankers say "no" and you will quickly discover a financing secret most ignore. The most common mistake we see investors make is they allow the shifting banking rules and regulations to frustrate them. The common reaction is "why did they change the rules on me?" or "it worked last time, why not now?" They then vent this frustration at the banker or mortgage broker and sadly burn that bridge forever. One thing to remember, mortgage brokers WANT your deal to go through (that is the only way they get paid), so thinking that they are making it more difficult on purpose is just pure folly. Don't shoot the messenger.

Some of the frustration comes from the fact that the investor doesn't completely grasp the sandbox rules of investment financing. Think of it this way, when you were a kid, and somebody invited you over to play in their sandbox, they had some rules about what you could and couldn't do. Well, now that you're grown up and you want to borrow money, you're asking to play in the bank's sandbox and, you guessed it – they have their own rules. There are a series of rules or guidelines that your banker or broker is governed by. Some of the rules make sense to an investor, while others seem to come from way out in left-field, but either way, the rules are there, and he who has the money makes the rules.

Most investors understand this at some level; however, they don't truly realize that within one bank there is more than one sandbox and each sandbox has its own rules … and these rules change again when you move to another bank. The more you learn about the different sandboxes and how they work the better you can become at working your way around the rules and thus, have less frustration and hear "yes" more often. The strategic investor takes the time to learn how to work with the rules and understand the true motives of the banks.

The purpose of learning the sandbox rules is not to empathize with the banks but to sympathize with them. This is a subtle but very important distinction. When you empathize with someone, you are psychologically identifying with their emotional state. When you sympathize with someone, you understand their emotional state, but don't necessarily share it. In effect, you are saying, "I understand why you feel that way, but have you considered this?"

By learning the sandbox rules, you essentially understand where the bank is coming from when deciding whether to loan you money, and then, if necessary, you can provide additional information or supporting documentation to help them see something they might have missed. The more you know about what governs your broker's or banker's decision, the more you can learn about how to make it easier for them to say "yes." Like the character in the movie *Jerry Maguire* says to his high-strung client, "Help me - Help you!"

So, let's look at this whole process through your banker's or broker's eyes. Imagine that you are walking in to see your broker and you have a property you either want to put an offer on or have already put an offer on and now you need a mortgage.

If you're dealing with a Mortgage Broker, the fact is they are trying to figure out two things:

1) Is there a lender that I can get to do this deal on terms that would be acceptable to the client?
2) How much time, energy, and effort is this going to take me or my staff vs. the potential rewards (including current, future and referral business)?

> **Special Sophisticated Investor Note**
>
> Only deal with brokers or bankers who are interested in your long-term plan, but don't be surprised if they don't share the same level of excitement about your goals as you do.

Remember, a broker can only make money by getting the deal done – so they want to do what it takes to get the banks to say yes.

However, they also know the policies and guidelines of all the various lenders in the market, and as such, can figure out quickly if there are any potential roadblocks that may create problems getting the deal done. That's why it is so important to have an experienced investment real estate broker on your side.

A good broker will also take the time to analyze how the mortgage you are currently requesting will affect your future potential to get approved (hence the importance of them knowing your five-year plan). Unsophisticated mortgage brokers may put you into mortgage deals that may seem great now but dramatically affect your ability to hear "yes" in the future. Make sure you, as a sophisticated investor, take the responsibility to communicate your full story to your broker if they don't ask upfront.

Broker Versus Underwriter, The Main Difference

At the end of the day the broker is sending the application to the banker (or an underwriter at a bank). The way the underwriter makes his/her money is completely different than the way the broker does. Although they get paid bonuses based on the volume of good business on their books, they also get penalized for any bad volume on their books. At the end of the day they will still get their paycheck whether your deal gets funded or not. So, the Underwriter at the bank will tend to have a very conservative view of every deal; it's basic human nature based on their compensation model. The broker on the other hand is not so lucky, if the deal doesn't get funded, they don't get paid.

The broker's job is then to package both the deal and you as the borrower in such a way that the deal gets approved. All the while the broker must balance two relationships – you and the bank. Even though the broker won't get paid unless he makes the deal work, he will also be keenly aware that the relationship he's building with that underwriter or banker is one in which he may have to draw a favor on down the road, so he is unlikely to jeopardize it over one deal. So, the good brokers won't enter the grey areas just to get one deal approved, especially if it risks a key relationship with a bank or underwriter.

So let me pose a realistic question, if you were a broker, which type of client would you be more likely to take a risk on, the one who comes in on a tight deadline, completely disorganized and demanding, with little to no understanding or appreciation of what they're asking for, or the sophisticated investor who walks in with a sophisticated investor binder (discussed in detail in ACRE), high expectations, a sense of sympathy for the task at hand, and a willingness to provide as much information as needed to help the broker do their job?

Brokers and bankers are human; therefore, they will always work that little bit harder for the person who is easier to deal with. This may occur consciously or subconsciously, but it happens. We can tell you from experience, dealing with the organized investor will make some brokers want to break through walls for their client to make the deal happen. While the former makes them cringe and doesn't really provide them an incentive to make that extra effort.

Make sure you fall into the sophisticated investor category, whether it is your first deal or your 100th, as it makes all the difference in the world.

The First Step: Finding the Right Sandbox in Which to Play

So, now that your deal is in front of the broker/banker, the first thing they are going to determine is which sandbox this fits into?

Think about it like this, the bank owns the sandbox and they let us play in it. So, who makes the rules? They do, not you, not your broker, not even your banker. In fact, your broker and banker are just the messengers who have to:

- Explain the rules to you, and
- Try to package you and your deal in such a way as to make it work within the rules

Like the old saying goes, "He who has the gold makes all the rules." Well, in this case, the bank owns the gold and the sandbox, so they make all the rules!

And to add to the complexity of the situation, the banks don't just own one sandbox, they have many in which you can play. In fact, there are six different sandboxes. That's why it's critical for you to have a clear understanding as to which sandbox you will be placed in:

- Sandbox #1: Owner-Occupied, Conventional
- Sandbox #2: Owner-Occupied, High Ratio
- Sandbox #3: Investment Property, Conventional
- Sandbox #4: Commercial, Conventional
- Sandbox #5: Commercial, High Ratio
- Sandbox #6: Private Money

The Six Sandboxes

Sandbox #1: Owner-Occupied, Conventional

This is the largest sandbox with the most players and the most flexible rules. In this sandbox you live in the property you are trying to finance and the maximum amount of money you are looking to borrow is 80% of the property's value. (You will note that conventional financing has changed, and the Bank Act allows you to borrow up to 80% of your property value without having the mortgage insured). This is the safest, most secure type of loan for a bank since over 99% of Canadians in this category make their mortgage payments consistently. In the unlikely event that a foreclosure is necessary, the bank has plenty of room to recover their loan given the 20% equity buffer they have built in. As such, requirements such as income verification for the self-employed or blemishes on your credit history can be more flexible. Virtually every lender in the country (banks, trusts, private lenders) is a player in this sandbox.

Sandbox #2: Owner-Occupied, High Ratio

This is the second largest box, but with a very different set of rules!

One of the most common mistakes we see is that a home-buyer does not understand that as soon as they try to put less than 20% down as a down payment, they've just entered a different sandbox. For decades, there were only two players in this sandbox: CMHC and Genworth, and they made all the rules. But in 2007, Canada Guaranty (a large international insurer) looked at the fact that Canadians tended to pay the mortgage when it was for the roof over their own head, and as such there were very few delinquencies in this sandbox.

According to the Canadian Bank Act, any mortgage from a Chartered bank that has less than 20% equity must be insured. And even though there are now three sources for that mortgage insurance, the rules are very specific and there is very little you can do to work around them.

As with most things in life, the fewer options you have the less leverage or bargaining power you have. So suddenly, the self-employed borrower who got away with a lot in the first sandbox, quite often will find it substantially more difficult to get approved in this second sandbox.

The good news is that the emergence of new insurance players in this sandbox has brought with it more innovation and flexibility - especially in the areas of minimal down payments, and income verification for self-employed borrowers. Keep in mind though, these high ratio mortgages are for people with good to great credit who will be living in the property they're financing. The banks and the mortgage insurance companies have determined that the risk of an average Canadian with good credit defaulting on the mortgage for the roof over their children's head is negligible. However, those same statistics change dramatically when the property being purchased is for an investment.

Important note**:** When Ottawa (the Finance Minister) decides to make rule changes, they can only directly influence CMHC insured mortgages and any secondary lenders that use CMHC underwriting rules as their own guidelines. Ask your broker which finance companies are using the CMHC guidelines, so you understand which mortgages are affected by government rule changes. The other two mortgage insurers, Genworth and

Canada Guaranty, tend to follow guidelines and pricing changes set by CMHC, but there are some differences from time to time.

Sandbox #3: Investment Property, Conventional

Unfortunately, bank statistics show that Canadians are not as diligent in paying the mortgage on a rental property as they are on owner-occupied ones. Now we know what you're saying, "What? The banks should be thrilled, not only do they have me as security, they also have someone else paying the mortgage." As much as we may agree with you, you are betrayed by the numbers. The stats show that this sandbox has the highest default ratio and greatest fraud ratio across all banks.

Knowing this fact, if you were a bank would you have the same set of rules in this sandbox as in the previous two? Not likely. That is why most conventional lenders will look for more equity in these deals. Typically, they're going to look for at least 20% equity used as a down payment (25% is starting to become more common). They are also going to be far more diligent in verifying the income on self-employed borrowers.

Whereas the self-employed borrower was able to get away with stated income in the first sandbox (that means you can simply tell the bank what you really make despite what your tax return says) the bank is now asking you to verify your income and qualify under their Gross Debt Service (GDS) and Total Debt Service (TDS) guidelines.

Mythbusting: Yes, in this sandbox you can still get 30 or 35-year amortized mortgages, thus increasing your monthly cash flow.

As you might have guessed, not only are the rules in this sandbox stricter, but there are far less players. Several the lenders who were happy to play with you in either of the first two sandboxes have opted out of this one. So, as you might suspect, since we have fewer players, it becomes even more paramount to develop a good reputation to play in this sandbox, particularly considering the fallout from the subprime crisis in the US.

Sadly, because of some lazy or outright fraudulent investors and brokers, the rules in this sandbox are tighter and more restrictive. To overcome the tighter guidelines in this sandbox, some unscrupulous borrowers and brokers have tried to work around the rules by committing bank fraud under the guise of "being creative." This may include (but is not limited to) asking the borrower to sign a form at the lawyer's office stating that they intend to live in the property, even though they have zero intention of doing so.

Remember, this is a small sandbox with fewer players, so if you want to last – you need to play by the rules and protect your integrity and reputation. The rules are tight for a reason; to protect you and the bank. With the system taught to you by REIN, there's no reason you can't get a "yes" even when playing within the rules.

Additional good news about this sandbox is that some lenders allow for a second mortgage or Vendor Take Back (VTB) mortgage, if the purchaser has a minimum 10% in the deal, thereby reducing the amount of your own cash you must put into the deal.

Sandbox #4: Commercial, Conventional

Please read this section very carefully to avoid major headaches and disappointments

Yes, you guessed it, commercial rules are different than residential ones. The frustrating part for most borrowers is a misinterpretation of the definition of commercial. Many investors assume that a commercial property is one that includes a retail or business component in the traditional sense. The problem is that the definition of commercial can vary depending on who you're asking: Your realtor, your banker, or your accountant.

For our purposes, we are interested in the banker's definition. From a mortgage perspective, a property may be deemed to be commercial as soon as you get beyond a fourplex, but some lenders will push this definition to a five-plex. Most commonly, a four-plex is the upper limit for residential and a five-plex or beyond is considered commercial for lending purposes. After that you are thrown directly into the commercial mortgage sandbox with substantially different rules and requirements.

Like many of the other sandboxes, the players have now changed. Some players from the residential sandbox are still in the game, others are completely out of the picture and some new players have now joined. Either way, the rules have completely changed. To add to the complexity, these rules vary from lender to lender.

First off, you need to know which sandbox you're in, so we need to define when a mortgage is deemed to be commercial versus residential. A single unit, duplex or triplex will always be considered a residential property for mortgage purposes. Virtually every bank will treat a four-plex as a residential mortgage as well; however, this is the cutoff point for some lenders, and they may only choose to do a four-plex as a residential mortgage on an exceptional basis (i.e., application must otherwise be strong). A five-plex is completely in the grey-zone, many residential lenders opt out at this point and your broker will have to do some digging to find a lender who will treat this as residential.
Tip: if you don't need the income from all five units to make the deal work for debt-servicing, you can simply submit it using only income from four of the units and some lenders would then treat it as a four-plex).

A six-plex is where 99% of the residential players now opt out. Your broker will be extremely limited in finding a lender who will look at this as a residential deal. There is one lender in Canada who is currently treating up to eight units in a multi-family complex as residential (for now), but they are only doing so in Ontario at this point. Beyond a six-plex, you will be dealing in the commercial sandbox. The other obvious clue that makes property commercial versus residential is the zoning. Quite often this comes to light when the broker or banker receives the appraisal.

Warning, know the difference!

Don't confuse an eight-plex with a rooming house. An eight-plex has eight separate suites, each having its own entrance and each being fully self-contained. A rooming house is a residential house that has eight rooms rented out with a hot-plate in each room for cooking. Your banks will scatter quickly if they read "rooming house" in an appraisal. Simply put, they don't like them. So, if you're buying one, expect even more problems. The same is true for student housing, so again, proceed with caution.

So, what's the big deal? What difference does it make if a property is considered commercial or residential? Lots! First, the entire underwriting process now changes: new sandbox, new rules. The simple explanation is that in the residential sandbox you, as the borrower, were the focus, and the property was secondary. In the commercial box, the property becomes the focal point and you (the covenant) become secondary, which may come as welcome news for some.

The biggest difference between the two is the cost of doing business. In the residential sandbox, the interest rate was very predictable, there was no lender fee, the appraisal costs were low, and the legal fees were standard. This changes when you buy a Multi-Family/commercial property. The rates could be higher, the bank charges a fee, plus your mortgage broker will charge a fee as the banks don't pay them for placing these commercial mortgages. The appraisal costs start at $1,200 and can go much higher, and the legal and accounting fees will also be higher. Your residential home inspector is not the same person you will use for a commercial property inspection (and yes, you guessed it, they don't charge the same amount here either) and, in addition, the lender will likely ask for a Phase 1 Environmental Site Assessment on the property. Other than that, there's no difference.

It's important to emphasize at this point that this is brought to your attention not to scare you away from buying a multi-family property, but to make sure you don't go into a transaction and get blind-sided. Remember, although the potential costs are higher in this sandbox, so too are the potential rewards. If you do your homework, you can not only have a very profitable purchase, you can create economies of scale by amalgamating many units under one roof.

So, let's look at the three main variables that can be negotiable from deal to deal on a commercial mortgage:

- Loan to value (LTV) ratio
- Interest rate
- Fee

These three items will be determined on a case-by-case basis after the lender looks at the following four items. These are called the four determining factors:

- The age and quality of the building
- The vacancy ratio of the building and of others in the surrounding area
- The cash flow from the property (debt coverage ratios)
- The strength of the borrower (both from a financial/net worth perspective and a management perspective)

If you remember that these four factors will always determine the previous three items on a case by case basis, you will never get caught by surprise, which will limit your disappointments significantly. So, let's take a closer look at how much each of these three items can change as compared to our residential sandbox:

Loan to Value

- On commercial purchases this can vary from 50% to 85% of the purchase price. In other words, a lender can ask that you put as much as 50% down on your purchase
- To get away with as little as 15% down, the deal would need to be insured by CMHC (sandbox #5)
- If it's not insured, then you're looking at 25% down
- If one of the four determining factors is weak, the bank may require a higher down payment

Interest Rate

- Typically, conventional mortgage rates will range from 1% to 3% higher than residential rates
- Again, what determines whether you are getting the lower rate is the strength of the four determining factors
- Please note: if your deal is CMHC insured, the rates could be significantly lower. CMHC insured mortgages rates range from 0.25% - 1% less than residential rates

Fee

- This is the biggest difference between commercial and residential mortgages and an area that catches most novice commercial borrowers off guard
- The lender in the residential sandbox will pay a mortgage broker a fee for bringing them new business; the commercial lender not only does not pay a fee – they charge one. And since the mortgage broker will not be paid by the lender for doing the deal, they will work a broker fee into the deal as well
- The combined broker/lender fee can range anywhere from 1% to 5% of the mortgage amount depending on the deal
- A good commercial mortgage broker will be able to use their experience and contacts to negotiate a better loan to value, interest rate, and lender fee, thus making their fee well worth it

Sandbox #5: Commercial, High Ratio

This sandbox is again one in which many novice borrowers slip into easily, only to be met with disappointment due to false assumptions and a lack of proper information. REIN members will be educated on these issues ahead of time and therefore avoid this disappointment.

Much like the residential sandbox, as soon as you put less than 25% down, the deal is considered high-ratio and must be insured. In the case of a commercial deal that is strictly residential units (i.e. a 12-plex with all 12 units being apartments) CMHC will entertain insuring the deal. However, if there is any mixed-use commercial component, such as a store, office or retail unit in the building, CMHC will back away from the property, and high-ratio financing will not be available without getting second mortgage financing.

So what determines whether or not your deal will qualify for CMHC insurance? Remember the four determining factors mentioned earlier? Well, you will likely need a score of four out of four to get anywhere with CMHC. If you're weak in one of those areas, be prepared to provide more as a down payment. If the best you can get from a first mortgage is 75% or 65%, then the only other ways to lower the amount of money you put down is to arrange a vendor take back (VTB) mortgage, or a second mortgage from another lender. But please take note, if you approach the first mortgage lender with a VTB already arranged, the lender will perceive this as increased risk and your bargaining power will be diminished. Not all lenders will stay in the sandbox if there's a VTB in play, so you now must negotiate with whoever's left standing in the sandbox.

This doesn't mean you should avoid these deals, just don't have false expectations going in. Remember, every time you change a condition of your deal ("Oh, by the way I've decided to only put 15% down now”), you change the rules of engagement, so expect to adjust.

The single biggest factor that determines the loan to value (LTV) ratio of a commercial property is cash flow. CMHC and most lenders will require a debt coverage ratio (DCR) of 1.35%. Simply take the monthly income from the property you are buying, subtract 5% for a vacancy allowance, and divide by 1.2. This will give you the maximum amount of your mortgage payment. Then use an online mortgage calculator to figure out the maximum amount of your mortgage. If this amount is less than 75% of the value and you’re frustrated because you know that your rents will increase over the next year – your alternative is to take advantage of sandbox #6.

Sandbox #6: Private Money

When all the conventional lender options have been exhausted there is still one more option out there that many investors forget about. Private money is made available through Mortgage Investment Corporations (MICs), which are typically put together through a mortgage broker office. They represent an amalgamation of private investor’s funds that have been handed over to a MIC for investment. The investors can choose between having the security of being in first or second place on a mortgage, and the amount of return they anticipate would be reflected accordingly. Private investors understand that the return they get on their investment is commensurate with the inherent risk involved. In other words, the higher the return, the higher the risk.

The operators of the MIC must answer to their directors but, unlike a bank, their decision-making process is not restricted to a bank policy. Typically, they will lend on the strength of the property rather than the strength of the borrower.

*Note: Private financing does not mean zero percent down. Most private lenders today will only go as high as 85% financing on a deal, with some possibly pushing that to 90%. But don’t expect to pay the same interest rate and fee at 90% as you did at 75%.

Having said that, private money can be a very viable sandbox to play in for some. A great example is the situation described in sandbox #5: Where your loan-to-value is restricted by the cash flow of the property. If you know that the rents are going to increase within the year, it may make perfect financial sense to take the less expensive first mortgage with a conventional source, and then top this up to 85% by taking a second mortgage through a private lender (MIC). Once the rents have been increased you can go back to the first mortgage holder and have the original mortgage increased to pay out the more expensive second mortgage. Quite simply, do your homework, do the math.

Analyze whether the extra cost of the top-up second mortgage is worth it for your long-term goal. At the higher monthly cost, does the deal still make sense? If the numbers still work, then it may well be worth the higher short-term cost. Remember, it wasn’t long ago that the interest rates that private MICs are charging today would have been very appealing for first mortgages, it’s all relative.

Financing for the Self–Employed

A growing number of Canadians today are joining the ranks of the self-employed. They range from the small business owner who is running a storefront operation to the IT technician who finds it more profitable to sub-contract his services to more than one company, rather than simply be an employee. Or, perhaps it's the computer expert that just got laid off from his company and has suddenly chosen to change his label to consultant. Regardless of the reason, claiming a self-employed or business for self (BFS) status on your tax return is a double-edged sword. On the one hand, you will see immediate benefits from the ability to lower your taxable income because you can write so much off. On the other hand, you no longer have a strong income to show the bank when you want to borrow money.

For real estate investors, this double edged sword has been an enigma for years. They need to show enough money to qualify for a mortgage, but they also don't want to pay any more in taxes than they have to. In fact, it is the onerous tax system in Canada which has created an entire sub-culture of self-employed sub-contractors, consultants, and home-based businesses. All of them are business people looking for legitimate ways to hold onto their hard-earned dollars, and there are many well-intentioned accountants who are more than happy to help them accomplish this task.

The challenge for the real estate investor is two-fold:

1) Your income (or ability to service the loan) represents one of the most critical components of qualifying for a mortgage
2) You now must get the bank to accept that fact that line 150 on your personal tax return is not a true reflection of how much money you really make

So again, we are going to take the same approach on this topic that we did when we initially talked about the sandbox rules: Sympathize with the bank. Like all the sandbox rules, the first key to working with them is to understand them, not fight them. The most frustrating thing for any broker or banker is dealing with a client who is belligerent about the fact that he must prove his income. "Of course, I write everything off. That's just smart business, the bank should understand!" Well yes, they do understand, but they still need to follow their guidelines.

The best way to understand the bank's guidelines is to put yourself in their shoes for a while. So, let's suppose that someone came to you and wanted to borrow $300,000 for the purchase of a $400,000 rental property. They present you with their application all filled out which shows an income of $100,000, but in the employment section they show themselves as the president of their own company. Now, if you were the banker you know that one of the most important components of qualifying an individual for a mortgage is to verify that they can service both the debt on this mortgage, as well as their other debts. And you also know that this file could be audited by a superior; as such, you need supporting documentation for any decision you make. What are some of the questions you might ask them? Remember, you're the underwriter at the bank and they're your client!

The first thing you're going to do is verify that the information provided is accurate. This simply means that if they've told you they make $100,000 a year, and you know that's sufficient to justify the loan, then all you must do is ask them to provide some documentation to verify it. Yes, even if they're a nice person, you will still need to get proof. And yes, even if they suggest that you are insulting them by questioning their honesty, you still need to provide the paper trail. What are you going to need from them, the client, to have a file strong enough to survive an audit? In other words, if the loan were to go into default in the future, what paperwork could you produce that would show a superior that you did your due diligence before agreeing to lend them money?

Here are a couple of things you could ask for to start:

1) Their personal tax return (typically a two-year average)

- If they are a sole proprietor, the personal tax return is very important.
- Line 150 on this return will show you how much their taxable income is and the return itself will show you the source of their income (i.e. T-4, business or capital gains)
- As a self-employed business person, they will not likely have a T-4, and the amount they show from their business will likely be a lot less than the $100,000 that they declared on their application
- If they showed part of their income coming from capital gains, the first red flag that should go up for you is whether they will be able to sell something every year to maintain that income level
- Since their income is from self-employed earnings, another item you will be concerned about is the consistency of their business. A self-employed individual may do incredible one year and be on the verge of bankruptcy the next. As such, you will want to see how their income has averaged over the past three years, to normalize the ups and downs and create a comfort level that the business has staying power (this could be a deal breaker for businesses that have not been around for more than a year)

2) Their Statement of Business Activities (Sole Proprietor)

- If they are a sole proprietor, they will have a section of their tax return that is labeled Statement of Business Activities
- This section breaks down how they derived line 150, including the gross amount of income that they have received and the various deductions they claimed against it
- This is the single biggest area where they can defend the fact that they make more money than they declare, and as such, can be the most critical part of the tax return (e.g. they deduct my personal housing costs, which I arguably would have regardless of business stature)
- You will be looking for any item in this section that I used to reduce my taxable income, but could justifiably be added back

3) My corporate tax return (If I'm incorporated, typically two years)

- My corporate tax return will tell you if my company is making money or not
- You will want to see if there are any retained earnings in the company as this could support the argument that I only take the minimum out of my company to minimize my taxes
- Does my company even make enough money to support my argument?
- Are there any debts that show up on my personal credit bureau that are paid for by the company? If so, you should be able to see that here – remember, your job is to produce a paper trail (e.g. if a credit card or car payment shows up on my bureau, and it is clear on the corporate return that the company pays that debt,

then it can be removed as a personal debt when calculating the debt service ratios)

4) Profit and Loss Statement (P&L) (Incorporated)

- A P&L statement will give you a quick snapshot of the economic health of a company. Again, you're looking for evidence that the company has the resources to pay me the money that I'm suggesting I make

5) Corporate Financial Statements (Incorporated, typically two years)

- My financial statements will quite likely have a two-year comparable, so if you ask me for two of these, you will get a three-year average of how the company has been doing
- The biggest thing you will be looking for here is which direction my company is moving in. Am I in a growth mode, or has my corporate income been in decline for the past few years?
- If my gross revenues are showing a steady decline, you will either re-evaluate your risk, or require a good explanation

6) Notice of Assessment (NOA) (Sole Proprietor or Incorporated)

- The NOA tells you two things: Whether CRA agreed with the number I provide on line 150 of my T-1 General, and whether I owe anything to Revenue Canada
- The amount I owe to the CRA may not appear to be a big deal to you, but I can assure you it's a very big deal to the bank you work for
- The CRA is the only body that can force your property into foreclosure and position themselves in front of the bank if you fail to pay your taxes. And in case you didn't know, banks get extremely finicky about that sort of thing, in fact, they can't stand it when anyone gets to foreclose in front of them – that's their job!
- Banks are so protective about their right to be in first place on a mortgage that they will rarely, if ever, grant a mortgage to an individual who has money owing to the CRA
- By the way, if I tell you not to worry, because I haven't filed taxes for three years and I'm almost certain that I don't owe anything. What do you think the answer from your boss will be when you ask him if he thinks this will be an issue?

7) A Normalization Letter from your accountant (see sample attached)

- This can be an invaluable letter when provided by a qualified accountant
- The letter extracts all the complicated yet pertinent numbers from my corporate tax return and dissects it into a simple one-page letter that essentially the banker/broker and all the areas where we reduced the income for tax purposes, but in fact should be considered as income for mortgage lending purposes
- This is yet another way in which I can make your job a little easier because I know that you want me to help you help me, right?

*Note: At this point it is critical to point out the obvious, yet often overlooked issue for self-employed borrowers! At the end of the day, you are really saying one of two things to the bank when you are trying to borrow money without a flattering T4:

1. You shouldn't worry about what my tax return says, because I write everything off, and I make a lot more money than I declare
2. Yes, I know I'm self-employed, but I want you to ignore that fact completely because this mortgage should be given to me strictly on the strength of the property, the amount of equity I'm putting in, and the amount of rent I am receiving from the tenant (we'll come back to this one later)

So, let's look at the first point. Again, you're the lender and I'm sitting across from you saying that I make more money than my tax return shows. I simply have a good accountant who helps me write everything off. At this point, the first thing you are going to ask yourself is: How can I put together a paper trail that will support my client's claim? Or is this guy just trying to cover up the fact that he really doesn't make any money and is saying *self-employed* because it sounds a lot better than unemployed.

There's a big difference between self-employed and don't declare versus unemployed and don't have!

The number one rule of thumb with lenders when dealing with this issue is: If you make more money than you declare, there should be some evidence!

Two specific areas you, the lender, would look at to see if I'm bluffing or not are my assets/net worth and my credit bureau:

1) Assets/Net Worth:

- If I've made more than I show, then where's the evidence of having made all this money I'm purportedly making?
- There must be some assets to reflect the income I'm claiming
- Do I own any other real estate, cars, RSP's, equities, bonds etc.?
- If I don't, you should question how long I've been making all this extra money that I just don't declare
- A lot of assets would certainly support the fact that I probably do make more than I declare

2) Credit Bureau

- The biggest thing you are looking for on my credit bureau is not only my score, but my exposure to debt
- The single biggest red flag for a lender, when dealing with self-employed borrowers, is extended use of credit
- If all my credit cards are at or near their max, that might suggest that I'm not doing as well financially as I may have let on. After all, if I made as much as I said I did, then why are the balances on my expensive credit cards so high?
- The only exception to this would be where the business paid for the credit cards every month, but again, this would have been reflected in the business financials. And, as a good client, I would have made it easy for you to connect those dots
- Conversely, if the credit bureau shows little or no consumer debt, you will be much more inclined to believe my story

So, what if I'm one of those clients who simply insist that the bank shouldn't even be worrying about my income and give me the mortgage based on the strength of the deal? Well, the technical term for this would be a non-income qualifier (NIQ) or equity deal. It's important to remember that every business relationship has a little give and take. If you want the bank to completely ignore your income, then you may have to give a little back in terms of interest rate or the amount you are borrowing. In a nutshell, the borrower always believes that when buying an investment property, the bank should be thrilled since they not only have the borrower as security, but they have a tenant in the property who will make it easier for the borrower to repay the loan. But alas, this is not the case. You may recall that we discussed this apparent anomaly earlier in the sandbox rules. Statistically, the highest defaults for bank loans are non-owner-occupied, investment properties. So again, if I came to you and said:

1) I'm buying an investment property
2) I'm self-employed and don't declare any income, but that shouldn't be a problem because the property has good cash flow

What do you think would be the reaction of your bank? You guessed it! Given the statistics, it's harder to qualify for a NIQ in this sandbox than it would if we were dealing with an owner-occupied property.

If the property I'm buying does not have great cash flow, then we may have to look at putting a little more money down or paying a higher rate for a sub-prime lender who is not as picky about income – you know, a little give and take

So, there you have it! If you're self-employed, you now know how to look at financing through the banks eyes, and I think you did a wonderful job – now, can I please have my money?

The 10 Steps to Building Your Long-Term Business Relationship with Your Banker and Broker

The foundation of your successful real estate portfolio will be built upon strong relationships with a team of professionals. One of the most important relationships you will develop is the one with the person, or people, who will help you get money for your deals – your banker or broker. A well-developed relationship will be based on give and take … you are giving the bank the security that they are looking for and they, in turn, are providing you the opportunity to greatly leverage your available cash.

There are a good many bankers and brokers; however, you will want to solidify a relationship with one or two who understand investment real estate. You will find that some focus only on the single family residential sandbox, while others have expertise in multi-family and commercial sandboxes. Choosing the right member of your team for this position will make a world of difference for you.

Strategy #1: Choose the Right Player for Your Investment Team

Never choose a banker or broker out of convenience. This relationship will prove to be one of the most important relationships you'll ever have as a real estate investor, so choose wisely! The professional you choose must have many years of experience in the complex investment real estate business. Getting personal mortgages are easy; getting approval on an investment real estate deal is much more difficult. Choose the easy road; work with someone who has contacts high-up in the bank's hierarchy and who has proven to be successful with financing investment properties.

If a banker or broker ever asks you to sign a document or make a claim that is not true, run away from them as fast as you can. There is a big difference between a broker and a banker, but either way, it's the right person you're looking for, not just the right bank.

A mortgage broker's job is two-fold:

1) To package your deal so that it is accurately presented in the best light
2) To shop your deal around to the lender who will not only fund the deal, but provide the best terms and conditions in doing so

A third role that an investor should look for in their broker, although not typically a part of their job description, is to provide advice on the overall structure of the portfolio and guidance as to how you can accomplish your goals.

Your banker's job is to do precisely the same thing, the only exception being that they are limited in terms of rates, fees or products specific to the bank they work for. It is very rare that a banker at one institution will let you know that their competition has a better deal for you.

This does not automatically mean that choosing a broker is better than choosing a banker. As a rule, a good broker will develop relationships on your behalf with a variety of different banks, thus allowing you to simply focus on finding a good broker. But we have seen many examples where a good relationship with a particular banker can pay huge dividends, especially if you're self-employed and have trouble verifying income. If you have worked with a particular branch or banker for quite some time, they may be able to ignore some rules that a broker can't.

It is not unusual for a broker to have a deal turned down through the broker-services division of a bank because it simply didn't fit the rules, and have the same client walk into a branch of the same bank only to have it approved by a branch manager with whom they have a personal relationship and vice versa. Never underestimate the power of that personal relationship.

Another common question is, "Should I, as an investor, build these relationships with two or three brokers and bankers?" A broker (unlike a bank mortgage specialist) can shop the market to a variety of lenders, so having two or three brokers doing the same job is redundant and in fact, can cause other issues with the lenders. The key is to focus on finding a good broker – once you have, all you need is one.

Having said that, remember, all banks have a cap on either the number of properties they will finance for you or the maximum amount of funds that they will lend to you. So again, depending on the size of your goal, it is unlikely that you will be able to have one bank fulfill all of your borrowing needs. In addition, there are some lenders who are investor friendly but do not work with mortgage brokers, so again, the investor will have to develop those relationships directly.

As you remember, within each sandbox different banks have different rules and different tolerances. It is incumbent upon your mortgage broker or banker to know which lender is best suited to match your needs, not only for today, but for the future as well. As you move from one sandbox to another, you need to be aware that the lender who was best suited for you in one box may not be the best in another. This is where a mortgage broker has an edge over a banker.

Once you've determined that you are working with a broker/banker who understands the sandbox you are playing in and the goals you want to accomplish, also make sure they are positive and open to being creative in helping to make your goals become a reality.

Some bankers are great at business banking, while some are great at personal banking only. You may already have a relationship with a banker through your business or personal dealings. However, often these will not be the bankers you will end up using for your real estate investments because you need a real estate investment specialist, someone who has seen creative real estate deals and is not afraid of making a deal work. So choose wisely.

Strategy #2: Describe Your Investment System and Long-Term Plan

This strategy is a critical component of your success. In fact, it should be incorporated into Strategy #1 but is deserving of its own title.

At the heart of everything you do as a real estate investor is the reason why you do it. It may seem strange to say, but at the end of the day – you're not buying real estate because you want real estate. You've chosen real estate because you feel that it will be the vehicle that will allow you to live the lifestyle you want to live.

So, at the end of the day, what is it that you are looking to accomplish? What does real estate have to do for you for you to live your own Personal Belize? A sophisticated investor will have taken the time to figure out their five-year plan and then have worked their way back from there to determine exactly what their real estate must do for them to prevent a goal from becoming mere fantasy. Once you know what your real estate must produce for you, you can then determine the type and nature of real estate you will need to put into your portfolio to make this happen. In other words, start with the end in mind and then develop a long-term action plan that is tangible and created on purpose.

Once you have this action-plan, share it with your broker/banker. You will know immediately whether you have the right player on your team by how they react to your plan. You will get one of three reactions:

1) They listen to your goals and then immediately try to bring you down to earth by saying something like, "well that's not very realistic, but we may be able to do this for you."

   Remember, less than 4% of real estate purchases in Canada are done by investors and of those, banks experience their highest percentages of fraud and delinquencies, so don't be surprised if you get a cold reaction.

2) They listen politely, and then say something like, "wow, that's very aggressive. I'm not sure we can do all that, but let's look at what we can do on this deal?"

   Remember, if they work for a bank that has a policy that will only allow you to buy a maximum of three or four revenue properties through them, you may well have just scared them off. Be very careful of this answer – it seems harmless and accommodating but can be extremely dangerous.

3) They not only listen to your goals but get excited about helping you reach them!

   Then they say something like, "that's an incredible goal! I'd love to help you accomplish that, so let's put together a financial game plan that ensures you won't get blindsided or run into a brick wall halfway towards your goal."

If you run into the first answer, run! This relationship will lead you nowhere and you'll only end up with disappointment and frustration.

If you run into the second answer, proceed with extreme caution! This lender may seem harmless and, in fact, they can be very helpful and even creative at first, but they could end up hurting your cause without even knowing it. The challenge arises when they don't let you know up front what their obstacles may be down the road. There is a tendency for this broker/lender to shift your focus onto the next deal. The reason they want to do that is to avoid the huge white elephant in the room. They think if they can just get you into this next deal, then maybe when you run out of money for down payments, or you're informed that your debt service ratios are too high to do another deal, you'll realize the folly of your previous fantasy and be happy with what you have. Many bankers will not do this to you on purpose; it may well be that they'd love to help you reach your goals; it's just that the bank they work for does not have policies that will accommodate your future needs.

The third response will be from a broker or banker who is very experienced in dealing with real estate investors and has experience in not only seeing a client's long term plan, but can also help them put it together. This broker will take a bird's eye view of your entire plan, analyze where you are today, see where it is you want to go, and immediately identify potential obstacles that could prevent you from reaching your destination. He or she will then put a proper game plan in place that not only ensures your ability to make your next purchase, but also the second, third and fourth ones as well, regardless of which Sandbox you choose to enter. This requires a very different perspective, but without it, you are very vulnerable.

Obviously, it's the third response you're looking for and, although these are harder to come by, they are out there, so don't settle for anything less. Then, once you have reviewed your long-term plan, have a pre-positioning conversation with them. It is impossible for a bank to pre-approve you on the purchase of a rental property, since the approval is dependent on the cashflow from the property you are buying. Since, at this stage, you are unlikely to have a property in place, the conversation should be more along the lines of pre-positioning you so that you know what you can qualify for.

Now that you've made a choice:

Strategy #3: Develop the Relationship

Now that you have the right player on your team to help you arrange all your financing, get to know them. Find out what's important to them. Take them out for lunch and ask the one question they've likely never heard from a client before, what can I do for you to help you accomplish your goals this year? If it's a busy market and they don't have time for that, then drop by their office and show them that you're a real person.

A lot of times the people in a bank or office forget that there's a real person attached to the end of that file and there's a family attached to that person. The busier an office gets, the easier it is to fall into a trap of being a processor of paper and forgetting the impact a deal can have on an investor. So, when you, as a sophisticated investor, drop by occasionally and keep the office updated on your progress, guess what? – they'll remember you.

And if you want to take that a step further, every once in a while bring or send a box of donuts or a simple acknowledgement for their staff. fter all, in many cases, it's the support staff that's actually doing everything for you and they are as, if not more, deserving of appreciation. Trust us, they'll remember you and when your deal comes in, it will go to the top of the pile. It's simply human nature to turn around and do something extra for someone who's done something nice for you.

Strategy #4: Present Yourself as a Sophisticated Investor

This strategy is so important we have a separate chapter dedicated to it. Making a powerful written presentation is the most important single thing you can do when working with a banker or lender! And, as you'll soon discover, it's not that hard to do. You only get one chance to make a good first impression. We cannot emphasize enough the incredible difference the documentation, and form of the documentation, can make. In our many years of borrowing/lending and dealing with banks, with literally millions of dollars funded, we can say with absolute confidence that the manner in which our documentation was presented was a key factor in getting some of the files approved. And presenting these materials in a sophisticated way to your broker makes his job significantly easier when he must turn around and re-package your information to the bank. If you've already done all the work, you've made his job that much easier.

The quality of the presentation will make or break your deal. That's the bottom line. We've seen too many upset investors who can't get their deals funded, and when we review their documentation we see paper with coffee stains, third generation home faxed copies, and dog-eared and half-stapled forms. And they wonder why the bank said no when their deal looked legitimate.

Remember, this is a business, you need to treat your paper work as such. Present yourself and your plan better than anyone else and give the extra 10%! (more on the extra 10% later).

Strategy #5: Find Out in Which Sandbox You'll be Playing and Pre-Position Yourself

Ideally by this point, you have a good idea as to what you need your real estate to do for you and starting with the end result in mind, you've worked your way back to a starting point. As a result, you should be clear as to what your next move will be, and as such, you have determined which sandbox you will be playing in. Now it's time to position yourself accordingly so that when an opportunity arises, you will be well suited to pounce on it.

There are two things you need to do next:

1) Have a pre-positioning discussion with your broker
2) Get a rate hold

As mentioned earlier, a pre-approval is different from pre-positioning. A pre-approval is a process in which a lender has looked at all your documentation and underwrites you. This means that they've looked at your income and expenses and determined the maximum mortgage amount they'd be willing to lend you. This cannot be done for a rental property since we do not know the revenue from the property yet.

A rate hold is commonly offered by lenders under the guise of a pre-approval, but the key difference is that they haven't bothered with the underwriting/verification process and as such, all they have really done is reserved an interest rate for you. This can be dangerous if you put an offer in assuming you have a pre-approved mortgage, only to find out it was just a rate held for you, and in fact, now that they've looked at the numbers you don't qualify anyway.

Many Banks no longer provide rate holds on rental properties

So, the first thing you need to do is ask your broker to figure out how much you would qualify for if you were to go out shopping tomorrow. Unfortunately, this is not as easy a calculation for an investor as it is for a home-buyer. When buying your principal residence, the Gross Debt Service (GDS) and Total Debt Service (TDS) ratios are straightforward, since the variables in the equation are quite basic.

Once you move into investment properties you're in a different sandbox and not only can the rules change, the variables or intangibles can be more complex. In this sandbox, you not only have the subject property to take into consideration, along with its income and expenses, but any other properties you own need to be considered in this calculation as well.

The lender will look at the total revenue income available, which will be compared to the total expenses going out. To quickly estimate the debt coverage ratio (DCR), also known as the debt service coverage ratio, divide the net operating income by the debt service. For example, an investment property with a net operating income of $36,000 and an annual debt service of $30,000 creates a DCR of 1.2. A DCR less than one indicates negative cash flow, or that you, as the borrower, will not be able to cover the total current debt obligation. The number literally indicates the estimated cash flow of owning a property; for example, the score of 1.2 in the example above indicates an ability to pay 120 percent of the annual debt on the property, creating a 20 percent buffer. The higher the number, the easier it will be to obtain a loan as this number indicates the financial risk the loan presents. A benchmark requirement by most lenders is 1.1 for a DCR; however, DCR minimums can range between 1.15-1.35 for many commercial banks. More aggressive banks might accept lower ratios, but this risky practice contributed to the housing crisis of 2007–2010. Therefore, the maximum purchase price of an income property would be limited by your down payment, not your income, as a larger down payment would lower the monthly expenses of owning the property, and create a larger DCR number.

If you are looking to buy a multi-family property that falls into the commercial sandbox, then any rate-holds or pre-approvals you have with a residential lender will not be valid.

As you can see, it's not always as simple as saying how much can I qualify for? But this does not excuse you from having the conversation to pre-position yourself. Even if you and your broker can not determine a specific dollar amount that you can be pre-approved for, you can save a lot of time and stress by determining ahead of time which sandbox you'll be playing in, which obstacles you'll likely encounter, and what you should do ahead of time to avoid those obstacles. Nothing is worse than self-imposed stress as a result of false assumptions.

Strategy #6: Communicate Clearly and Concisely

A fundamental rule that should always be followed is to clearly communicate what you want. Be very clear up front as to what your expectations are with your banker/broker. They will tell you if your expectations are obtainable or not. This is true when it comes to interest rates as well. The days when banks assumed you didn't know better and were just happy to get an approval, whether it was a posted rate or not, are over, but that still doesn't mean you don't have to negotiate your rate a bit to make sure you're getting the best deal available.

This is often a touchy subject with investors and an area where they can get so focused on winning the battle, they lose the war. Your cost of borrowing is a critical component to the potential viability of your investment and you want to make sure that you are never taken advantage of. So, you should always confirm that you are getting the best interest rate possible. However, if you've followed all the steps up until now, you should be working with a broker or banker who has your best long-term interest in mind (if not – change who you're working with). But there may be occasions where the choice of lender has more to do with positioning you for the next deal than it does of getting you the best rate. In this scenario, the long-term picture is more important than saving a small amount on the interest rate.

Making sure you get the best deal possible is important, so when you're dealing with a broker or banker that you feel is part of your big picture team, always ask, is this the best we can do? – that question may be enough to motivate them to find a little extra, but if they say it is – NEVER threaten to go to another bank because they're willing to offer you one-quarter a percent less. You are building a relationship with this banker and the one-quarter is not worth ruining a relationship for.

An Old Business Proverb:

If you grind and grind … the thinner your welcome becomes …

Sophisticated investors know that rate is not as important (assuming it is reasonable) as getting the deal done, and the lender feeling like you did not take it all off the table. A good solid relationship with a player is worth much more than a small percentage savings on one mortgage deal.

Strategy #7: Use the Right Tools

This strategy is a smaller part of your overall portfolio strategy. Mortgages for a real estate investor should be thought of as tools, not just products. Your job is to make sure you've chosen the right tool for the job. When you initially sit down with a good broker or banker to establish an overall game-plan they will want to know two things:

1) What is your long-term plan? If you fail to plan, you plan to fail
2) What obstacles will we need to overcome to accomplish the goal?

You will immediately realize that, as an investor, you will always be faced with two potential obstacles:

1) Qualifying for the mortgage based on the bank guidelines, and
2) Limitation of funds for down payments

Armed with this information, they can then provide the proper advice to help you accomplish these goals and then determine which tool is going to be best suited for you to get the job done. And the first place we're going to start is with the money available for down payments. If you think of your real estate investments as a business, (and you should!), then think of the money you have access to for overall down payments as your seed capital. Your seed capital is the money you're going to invest into your business. Now you have two questions to ask: How much money do you have access to, and where is it going to come from?

Assuming you are not starting out with a large sum of capital sitting under your mattress, the simplest and least expensive source of borrowed capital is the equity in your home. However, this is where many investors make their first mistake. One of the most frustrating things for us to see is an individual who goes into a mortgage broker's office and says they just went into their bank and refinanced their mortgage to access the equity in their home. Assuming that they have determined how much seed capital they will need for their investment plan, and assuming they have decided to use all of this equity for future down payments, there is a much more effective way to access this equity than simply refinancing your mortgage. It is the use of a Home Equity Line of Credit (HELOC).

The difference between a HELOC and a mortgage is two-fold:

1) When you arrange for a mortgage you are obligated to pay the principal and interest from day one regardless of whether you need to use all of the funds or not, whereas with a HELOC you can draw down only the amount you need and pay interest only on that amount. You only pay interest on the funds you use – not on the amount you have access to
2) A HELOC can be paid off in full with no penalty, yet, you still have access to it. All the original funds can be re-advanced to you at any point, whereas a mortgage may incur penalties if paid off in full and is typically not re-newable

A qualified broker can help you determine which strategy will be best suited to your situation and objectives.

Not All Lines Of Credit Are Equal:

Again, a real estate investor must be cautious not to act like an average home owner. As an investor you do not have the luxury of what we call lazy decisions. These are simple decisions that are made out of convenience because the investor doesn't want to take the time to do a little research. An example of this is an investor who arranges a simple HELOC in addition to their existing mortgage. Sounds simple enough and virtually every lender will allow you to set up a simple HELOC.

The problem is, as an investor, your needs are not simple. If you recall one of the major obstacles we defined earlier is the ongoing need for access to future money for down payments. The mortgage on your principal residence can be a phenomenal tool for you – if you set it up properly. The tool you need as an investor is a re-advanceable mortgage and HELOC combination. Not all banks will have this option, but it is one in which the lender will determine a global borrowing limit up front (usually 80% of the value of your house), and then allow you to set it up as a combination mortgage and HELOC. So far, no different than usual, right?

Well, the difference is that with a re-advanceable or matrix mortgage, every time you make a regular payment on your principal residence mortgage, the amount that you've reduced the principal by automatically becomes re-advanced to you in the form of your HELOC. In other words, every time you reduce the principal balance on your regular mortgage, that money becomes available to you on your line of credit, up to the original global borrowing limit. And here's the best part – when you use money from your HELOC for a down payment on an investment, the interest on that HELOC is tax deductible! This is a subtle, but very important, difference that will allow a sophisticated investor to turn his principal residence mortgage into a tool that not only has a built-in feature that produces available cash for future down payments, but also converts a non-tax-deductible debt into a tax deductible debt. Now that's what we call smart investing!

Remember, not all banks have the same HELOC rules. There are a few banks out there who offer HELOCs you may choose to avoid. Here's what to watch out for:

1) The bank requires a minimum monthly payment even if there is no balance on the credit line. Most common is interest only on the balance outstanding which is usually less than 1% per month
2) The HELOC balance can't be converted into a mortgage. Mortgage rates are usually lower than the credit line
3) The banks don't allow for a variable mortgage within a HELOC. This could increase your cost for funds when converting a credit line balance to obtain a lower interest rate mortgage
4) The bank may have pre-payment restrictions if you convert your HELOC balance into a mortgage. Pre-payment can be as low as an annual payment of 10% or as high as 20% of balance

For a personal Credit Line (PLC), the following are much more of a concern:

5) The PLC has an annual or monthly fee. Some banks play a game which is even worse. You can only get the PLC if you sign up to the bank's gold or deluxe

monthly service package for a fee, which includes the right to have a PLC … this is definitely not what you are looking for

6) The bank makes you re-apply for the PLC or service package each year. This is almost as much hassle as applying for the PLC in the first place!
7) The bank bases the PLC interest rate on their personal loan base rate (or some other fancy name) which is one-half a percent or more above prime. You may think you're getting a prime plus 2% rate, when in fact they're charging you prime plus 2 ½% or even more. Always ask!

Another caution … If interest rates take off, because PLC rates are usually floating, you could have a cash flow problem. One way to beat this is to convert the PLC to a fixed rate loan if you believe interest rates are about to rise substantially. Keep in mind you may have to pay a higher rate for the fixed rate loan.

Strategy #8: Keep Your Banker/Broker Updated with Good News Reports

As you begin to develop both the relationship and the portfolio of properties you are buying, a great way to keep your banker/broker in the loop is to keep them updated on your progress. Think of it in terms of an annual portfolio checkup. The update should be two-fold; one should be related to the geographic area in which you are investing, and the other should be an update on your portfolio performance.

If you have followed the REIN system and selected a specific province, city, town and neighborhood within which to focus your investment dollars, then sharing your reasons for making this selection will reflect your sophistication as an investor. Your banker or broker will be very impressed and, in some cases, be the one thing that helps sell your deal. When a sophisticated investor walks in with a binder fully prepared with all the personal information a banker needs to evaluate, and then further separates themselves by providing a series of news articles about increased rental demand and economic data, the banker knows you are in the top echelon of investors and will feel much more confident in recommending, or fighting for, your deal.

As the relationship moves forward, do not hesitate to provide an annual portfolio checkup that shows your banker/broker how well the properties they approved last year have been doing. A savvy investor will provide their banker with the right tools to get the next deal approved. Lending institutions keep a firm eye on delinquencies and 90% of your approval process boils down to a determination of risk – especially if it’s the first time they’ve dealt with you. When you come in a year later, and show them how well your portfolio has performed, it makes it significantly easier to get your next deal approved. Please note, regardless of past success, lenders will still apply the Sandbox rules, so this is not intended to be a license to break the rules. Your update will go a long way if a decision is borderline.

Strategy #9: Send Them Referrals or Other Business

When you first sit down with a good broker or banker, you want to show them your current portfolio and explain to them your sphere of influence. They will recognize you as a sophisticated investor when they see the potential business from you and your sphere of influence.

If you're dealing with a banker, he may well be attracted to your other banking business such as your chequing account, business accounts, savings accounts, personal residence mortgage, retirement savings, investment accounts, etc., but keep in mind that this does not carry the weight it once did. Statistically speaking, most of all business is done by referral. So a smart banker or broker will be very interested in your existing portfolio because they will see it as a source of future business. Whether it's a banker looking to get ahead in his branch or a broker trying to build his database, an investor who walks in the door with an existing portfolio looks attractive.

At this point it's important to remind you that not all bankers or brokers will be as excited about your investment plans as you are. Bankers and brokers may be skeptical because less than 4% of Canadians invest in real estate and less than 1% of those investors are serious about developing a significant portfolio; of that 1%, only a precious few are sophisticated investors who avoid fraudulent means to accomplish their goals. So, if the average broker or banker is accustomed to dealing with late-night TV investors who insist a Canadian bank should apply the American tactics that they were taught in a seminar, and the majority of the bad debt and fraud cases that Canadian banks have on their books have occurred with these types of investors, should it surprise you that the banker you're sitting in front of is not as excited as you are about the great deal you just got?

We can take this even further by understanding how brokers and bankers get paid. Keep in mind that the average rental property purchase is significantly less expensive than the average principal residence. That's great for you the investor, but what have you done to help that broker/banker hit their goals; especially if putting your deal together is going to be two or three times as much work, for half the pay? Well, fear not! That's the reason you talk about your entire portfolio with them. A good broker will be able to recognize that this particular property may be less profitable for them, but every time they complete one of your deals (where you have made it easy for the broker to work with you, and you've been pleasant to work with), they can immediately see some economies of scale in having you as a client.

Strategy #10: Join a Real Estate Networking Group

As a real estate investor, one of the most powerful and practical things you can do is join some kind of real estate networking group, in order to surround yourself with like-minded people. Make sure it is a group that has action takers in it, people who are investing in real estate, not just a group who *talk* real estate. Make sure the group is led by someone who is investing in real estate today, not just someone who used to be an investor. And most importantly, make sure the group has been around a long time, a decade or more preferably, as this will help establish legitimacy.

We've seen too many investors, both veterans and rookies alike, being taught systems or strategies that don't work in the long-term, or even worse, enter the world of fraud. Always ask the questions and *look behind the curtain*.

When you find a quality networking group, you will meet many fellow investors who have already faced and solved the many issues that come up for investors. They will have proven contacts for financing, as well as for almost anything else you'll need. Many of these groups are headed by some of the most talented investors you'll find anywhere. For example, simply by getting support from similarly focused people you will build a better relationship with your banker/broker by:

- Getting second opinions
- Determining what to look for in a banker/broker
- Asking what to expect
- Questioning fees
- Learning what is normal
- Seeking referrals

However, even if you've met someone at a networking event, don't just take their word as real estate gospel. They may be a veteran investor, or they may be a rookie; it doesn't matter. You must do your own due diligence on what they are telling you. Sadly, there are a lot of wolves in sheep's clothing in the real estate industry, and the best way to protect your interests is to stay away from anything that looks even remotely shady. One way to know if the deal is questionable is if you can't reveal everything to your banker or broker because of the way it is structured. If this is the case, then you should walk away from the deal, that's the bottom line!

Just like you should never choose your lawyer, doctor, or accountant based on price make sure you don't just base your real estate networking on price, as you often get what you pay for. Something cheap will get you exactly what you don't want, being surrounded by inexperienced and unsuccessful investors. Find a group of successful investors who have a long-term focus, so you are not being sold the latest trend of investing every time you turn around. Make sure the group has been around for at least 10 years, so they have seen both the up and down market. It is easy to look like a genius in an up market; however, as a long-term investor, you need to know that the leadership has seen both sides of the market and can assist you in all situations. Look for experience and a group that will challenge you to achieve greater heights!

The key is, there is really nothing new in real estate; it's all been done before. So, by surrounding yourself with other investors, and learning from these veterans, the answers to your questions or issues will be at hand.

Presenting Yourself as a Sophisticated Investor:

The critical information your banker needs in advance

Financing for your deal is one of the key components to making everything work. Without financing on your side, your potential investments become quite limited. Let's put this into perspective.

Let's say that you just finished taking a weekend course on how to become a real estate investor and you're extremely excited about going out and developing your portfolio. If a mortgage broker walked up to you and said, "By the way, I've reviewed your financial situation, and you qualify to buy anything you want. You never have to worry about qualifying for a mortgage again, whatever you want, you got it! Just go shopping for your properties," we'd hazard to guess that you'd be pretty excited about your prospects for success.

Conversely, if after having that same weekend event, you met with a broker that said, "Well, I know you're excited, but after a quick review of your financial situation, I can definitely say that there is no way you will ever be able to get a mortgage on your own. I'm sorry, there is nothing we can do, good luck," we're guessing the aforementioned excitement would vanish.

So again, we might be a little biased, but how important do you think the financing component of this process is for you?

Making the right presentation is the key to getting your banker to say yes. By following a proven system, your presentation will be one of the best your banker has ever seen. The system is just a simple collection of documents but documents few others have ever compiled in a well-organized presentation to a banker. It screams sophisticated investor, calms the gut feel, and gets the banker excited about your deal!

Your banker needs the information in these documents to assess the risk of loaning you a particular sum of money. It's a very simple process, especially after you've done it once. And the benefit to you can be dramatic, both in the short-term and the long-term.

There are eight essential components to the system and we'll discuss them in detail below. Why these particular eight components? Well, in hundreds of transactions with bankers over the years, we keep hearing the same reasons repeatedly as to why people get turned down for financing. And in most cases, these obstacles have been overcome when the applicant knew how to package themselves to be attractive to a banker upfront.

The key is being prepared! This will allow you to retain control. Tell your broker the answers before they even ask the questions! This pre-emptive approach is very, very powerful. Of course, you'll tell them the answers they want to hear in the way that makes you appear in the best possible light. And remember, always tell the truth and reveal all aspects of your deal, then let them decide what is relevant.

Keep the following in mind if you feel you are going to hide certain parts of your deal: Never do it! Bankers see, hear, and meet many people and see deals each day. Thus, a banker gets very good at seeing what a non-truth is, even if the investor thinks they're pulling one over. Don't fool yourself that you are getting away with something new. Many things in business (lending is no different) follow a pattern. When, or if, the pattern is broken, it’s obvious to the veteran. If you have many years of lending experience, the items that are not quite right stick out like a sore thumb!

However, there may also be a new twist or set of facts that can be shown and explained by you. So, if asked, have the answer ready.

The fundamentals of lending are the same everywhere. So, remember the banker’s primary focus: Will you be able to pay back the loan on time? And remember, the bank wants and needs to lend you money, that’s how they make money. They just want to be sure they'll get the money back with no hassles and without affecting their ability to reach their own personal goals.

To satisfy themselves, bankers must be convinced you have the financial ability to pay them back and the sophistication to run a rental property. Here is what you need to show them, so they will be convinced.

1. **Completed & Signed Application**

Walking into a bank with a completed and signed mortgage or loan application form may sound like an obvious and trivial step in the process, but it has significant implications. Most investors, in fact most people, wait until they wander into the bank and then start searching for what should be obvious information (Social Insurance Number, postal code, employer’s address, etc.). They know in advance that the banker is going to want that information; however, most people still walk in unprepared. Your job is to raise yourself above the masses and having this information ready will do wonders for you and your long-term relationship with the bank. First impressions are lasting impressions.

Here are the keys. You already have one of their applications if you followed all the steps when you chose your banker/broker. Or, as is often the case these days, you may choose to fill out an online application prior to setting up an appointment with your banker or broker. Virtually every broker these days will do things electronically and an online application will save both of you a lot of time. If you want to meet with your broker to have a pre-positioning conversation, show them that you value their time by going to their website and filling out an online application in advance. If you have a portfolio of properties already, they will also ask that you fill out a rental cash flow analysis spreadsheet. Without this information, the conversation you can have is one based on theory, not facts. And that will be a waste of both yours and your broker’s time, and can cause you to make assumptions, or get advice without the verification of the information. Then when your real information is presented in a future conversation, the rules of the game can change significantly. So, do yourself a favour and prepare the right information up front.

Don’t get lazy and start writing see attached information on the application. Bankers have their system and they will eventually want the form completed and signed, so you might as well do it up front. Remember, your job is to make life easy for the banker to say Yes. Still, include all the back-up documentation in your Sophisticated Investor Binder, but complete the application in full.

Do not sign an application without reading all the fine print!

You must understand the implication of signing an application; read the fine print. You may be authorizing the bank to do much more (i.e. credit check) than you want at this point. In very rare instances, there are other clauses hidden in the fine print. On these occasions you can cross out the clause(s) you don’t like (and put your initials beside it, of course.) Even with online applications, you will likely be asked to give your consent to a credit check.

2. Proof of Income

This is perhaps the most basic information a banker will require. To establish if you can repay a mortgage, the banker must be convinced you have the ability to handle the payments. They require written proof that you make a certain amount of income. For several years, a simple job letter from your employer was sufficient to confirm where you work, but with the increase in fraud over recent years, job letters have become the easiest items to forge, and as a result now only represent one of the items that will be required.

To complete proper income verification, virtually every bank will require at least two of the following five items to confirm that you work where you say you work and make as much money as you say you do. The five items are:

1) Recent pay stub
2) Letter of employment (no older than three months)
3) Most recent T4
4) Most recent T1 general (your tax return)
5) Most recent Notice of Assessment (NOA)

The bank is going to look for at least two of these five items and will match them against how much income you stated on your application. This is why it is important to be as accurate and honest as possible. If there are any discrepancies between what you stated on the application and what the lender confirms via these items, the entire application can be in jeopardy. It is also very important to be accurate with the information that you provide your mortgage broker. If your mortgage broker has the wrong information on the application submitted to the bank, then two things will happen:

1) The deal will come back declined and the bank will question the professionalism of the broker for sending something in that wasn't accurate
2) The broker then must get the right information and resubmit the deal.

All of this only serves to waste a lot of time and cast a shadow of doubt on the accuracy of all your other information.

One of the most common areas of confusion with income for employees (we'll talk about self-employment later) is with bonus or commission income. Again, you have to think of it from a bank's perspective. Most people mistakenly assume that if your income includes a bonus then you simply have to state the combined base plus bonus as your total income. There are a few problems with that. First, think of the concept of a bonus. A bonus, in virtually every case, is determined based on the profitability of the company for which you work, or as an interpretation of your performance. Either way, it may, and often does, change from year to year.

Now, since the purpose of asking for income verification is to determine a borrower's ability to repay the loan, the lender can only use income that can be guaranteed and confirmed. Since you may have a great year one year and the company could do very poorly the next, banks will look for a two-year history of bonus or commissionable income when determining a total income figure. The logic being the history over two years will reflect a reasonable expectation and eliminate a fluke year. Also, you can't fool a lender by getting creative in your job letter, since the pay stub will show a different amount in the year to date column. As with most discrepancies, if there is doubt, they will simply ask for more evidence. Another point to remember about job letters is that it is now standard practice that all job letters be called and verified, so it's not a bad idea to give your employer prior notice.

If you are an employee and work for a company (other than your own) you can usually get a job letter from your Human Resources department. This is a simple letter that states that you work for a certain employer and make so much money per month or per year (see a sample on the following page). Sometimes, you can get your boss to embellish the letter with information about how great you are, how long you've been with the company, that you have a great future, etc. Remember, don't lie, but aim to present the facts in the best possible light!

Job Verification Letter Sample:

ABC Company Letterhead

5821 123 St, Edmonton, AB, T4N 1N7

October 15, 20XX

To Whom It May Concern:

Joe Sakic has been employed with ABC Company since January 3, 2003 in the position of Vice-President of vulcanized rubber projectiles.

He currently earns a base salary of $64,500 per year plus annual bonuses of approximately 10% of his base salary. His prospects for continued employment are very good due to his unique talents.

Sincerely,

Pierre Gauthier

General Manager

555-555-1234

Now, if you're self-employed, the rules are a little different. You'll still have to prove your income; however, a letter from yourself, or anyone else at your company, is usually not sufficient. Generally you'll have to give your banker copies of your personal income tax returns for the last two or three years along with two or three years of your corporate tax returns.

The problem for self-employed people is they try almost anything legal to reduce their taxable income so they can reduce their income taxes. However, this strategy is the exact opposite to what the bank wants. The higher your taxable income the better in their eyes!

Is there a way around this?

Yes, there are two ways we know. First, some bankers will accept financial statements of your business in addition to your tax returns. These statements are often more flattering reflection of your income level. You have these already prepared for your businesses. Make copies of them and have them play a key part of your Sophisticated Investor Binder.

The second thing you can do is a technique some business owners have used with success: request a letter from your Chartered Professional Accountant that is addressed to your bank and clearly defines what your and your business's TRUE income is. This will obviously include your salary, but it will also include money you received in the form of shareholder loan repayments, expenses, rent from a home-based business, dividends, retained earnings, depreciation and other items that may not appear on a personal income tax return. Be aware, this may not work with all banking institutions, but it certainly doesn't hurt.

Sometimes, it's best to draft the letter yourself and have your accountant modify it and sign it. Remember, don't lie - just tell the truth in the best possible light. Your accountant should also state in the letter that he or she can be contacted for further information. Please note: lenders today will not likely accept this accountant's letter on its own; however, it will be helpful if you can provide the supporting documentation to help the bank produce the paper trail. Remember, if you make more money than you declare, the bank will simply want you to produce a paper trail to support that claim.

Once again, the more information you provide, the better chance you have of building a trusting relationship and having your deals approved.

3. Personal Cash Flow Summary

The bank needs a summary of your personal cash flow to decide whether they think you can afford the monthly payments of the mortgage (see example). Remember, it has nothing to do with the fact you know you can handle the payments. They have their own rules and as the golden rule goes:

He who has the gold makes all the rules!

Make sure you list all your sources of income on the summary. Unless you're making significant positive monthly cash flow on investment properties you may own, it is recommended you do not list this income on your cash flow summary. It will be listed in another document, your revenue real estate asset statement (we'll be discussing this shortly).

Make sure your income listed in your cash flow summary is the same as the income on your job letter, or other proof of income documents! One-way bankers seek the truth is by looking for consistency. If the numbers don't add up, a banker may think you could be fudging other numbers and this starts to raise red flags! Remember, tell the truth always.

When listing credit card payments, put the minimum payment you have to pay as opposed to what you actually pay. This applies to all payments where you may be paying more than the required amount.

The way a banker decides if you can afford the mortgage payments is by calculating two ratios: Your gross debt service (GDS) and your total debt service (TDS).

The GDS formula is mainly used when purchasing or refinancing a personal residence. So why are we mentioning it here? Because some lenders will use it for investment properties, and because you need to know about it to speak intelligently about mortgages with a banker or broker.

The formula for calculating your GDS ratio is:

$$\text{GDS ratio} = \frac{\text{monthly mortgage principal + interest + taxes + heat}}{\text{your monthly income}}$$

For the purchase of your own home, most banks will let you have a mortgage where the monthly PITH (principal, interest, taxes, heat) is 32% or less of your gross monthly income (note: they do not account for the deduction of income taxes in this calculation). For borrowers with excellent credit most lenders currently allow for a maximum GDS of 39%.

The TDS ratio is used all the time by bankers to calculate whether you qualify for a mortgage on an investment property.

The formula for calculating your TDS ratio is:

$$\text{TDS ratio} = \frac{\text{monthly PITH + all other monthly debt payments}}{\text{your monthly income}}$$

The TDS formula includes all of your debt payments including personal residence mortgage payments, taxes, and heat (or monthly rent if you’re a tenant), credit card payments, bank loan payments, personal credit line payments, etc. The only things you don’t want to include are expenses and mortgage payments on your rental properties, though many lenders will want to include those expenses depending on how they calculate ratios. Try calculating your own TDS ratio, that way you can verify your banker has done it correctly!

Most bankers will not lend you money if your TDS is above 40% - 44%.

Here’s a trap to watch out for. Let’s say you use your credit card every month and pay off the balance every month when you get your statement. In that situation, you would not need to list any debt on your net worth statement or indicate any payment on cash flow summary, right? The credit card payment is just part of your monthly living expenses.

So far, so good.

When the bank gets their credit bureau report on you, they notice an outstanding balance of $3,700 listed against your credit card. Almost automatically, they become suspicious of your information.

What happened? Financial institutions usually report to the credit bureau on a monthly or bi-monthly cycle. It's all done automatically by computer. So, guess what happens? If, on the day they report to the bureau, your credit card has an outstanding balance of $3,700, this amount will show up on the bureau report, even if you paid it off the very next day. The bank will then want proof you've paid off the balance!

Is there a way around this? Of course, but we'll save that for later.

Another problem is that some bankers include your credit potential in their TDS calculations. This means if you have a credit card or PLC where there is a significant unused balance, a banker may calculate what the payment would be if you maxed out the credit card or PLC; thus, reducing your ability to obtain a mortgage. If your banker insists on doing this, go somewhere else as other lenders may not be required to underwrite that way. Make sure you calculate your own GDS and TDS before going in to the bank.

Personal Cash Flow Summary Example:

Joe & Mary Investor

Monthly Gross Income

Joe	$4,500
Mary	$5,100
Total	$9,600

Monthly Expenses & Payments

Living expenses	$3,300
Residence mortgage (joint)	$1,756 Bank of Nova Scotia
Visa - Joe	$231 Bank of Nova Scotia
Visa - Mary	$122 Bank of Nova Scotia
PLC - joint	$156 CIBC
Car loan – Joe	$337 Bank of Montreal
Total	$5,902

Total debt service payments $2,602

Signed: _________________ Dated: ____________________

4. Credit Bureau Report

Every time you sign a mortgage application, or for that matter any credit application, you are authorizing the lender to check your credit bureau file. The permission for them to do this is written in the fine print just above where you sign your name. Unless the bank has very recently checked your file, they will print off a report from the bureau and review it carefully.

Scary Part #1:

Now, for the scary news. First, many bankers do not know how to read a bureau report properly. Secondly, many bankers get concerned about the strangest things. And thirdly, your bureau file can often contain incorrect information! (See the BEACON® Score described below.)

You should review your credit bureau report at least once a year and/or just before applying for a mortgage. Personally go to the local credit bureau office and get them to print you a copy of your credit bureau report. You can do it on-line for a cost, or you can use the forms included in this report to request your report by mail or fax. There is no charge for this service in most jurisdictions, but if you want to know the actual score you'll need to pay for a copy of your credit report.

After you've been through this process a couple of times, you'll probably know as much as many bankers about how to read and interpret what the report really means. (If the report is sent to you in the mail, make sure you go over it with a bureau representative on the telephone after you receive it).

Scary Part #2:

You may very well find several mistakes or a listing for a credit card about which you long ago forgot. You need to clean up these issues right away with the credit bureau or you risk being turned down for a loan.

Check all the information on your report such as correct spelling of your name, address, employer, what credit cards you have and their numbers, loans, mortgages, etc. Make sure it's all accurate. If you find something wrong with your personal details, the bureau can usually fix your file for you. If the problem is with a bank or company, you'll usually have to contact them yourself. The credit bureau employee can tell you how to go about it. Keep in mind that surprisingly, mortgages are often not reported on your credit bureau (especially with Equifax).

Most bankers look for two specific things on your report. First, they want to see how many inquiries are on your file. Every time a bank or company looks at your file electronically or manually, an inquiry is recorded on your file. The inquiry states which bank, or company inquired and the date. These inquiries usually stay on your file for three years and also affect your BEACON® score.

When bankers see a lot of inquiries on your file, they regard you as a credit seeker. Even worse, if there are no recent loans, mortgages, or credit cards to match each inquiry, they'll assume you were declined for financing at another institution and therefore you must be a bad credit risk. (Please note: your own inquiries of your file with the credit bureau are considered soft pulls and do not have any negative impact on your score).

Secondly, bankers want to make sure you pay your loan payments, credit card payments, and your bills on time. If you've been good, there will be an R1 beside each of the credit vehicle descriptions. That means you've made each payment on or before the due date for a particular credit vehicle. If you're one month late, it will be rated R2, two months late, R3, etc. all the way up to R9 (which means bad debt, placed for collections).

Bankers want you to have all R1's. They'll usually accept the odd R2, but not much more. Be warned – sometimes wrong data can get into your file. If you see an unflattering R code that you know is incorrect, contact the bank or company involved and get it fixed. If you don't, you may not be able to get a mortgage for two years or more as delinquent payments will show on your bureau for six years from the first date of delinquency.

After the bureau employee finishes explaining the report to you (either in person or over the telephone), you should immediately take a copy of the report and, in black pen, write an explanation beside every item (use black pen, as it photocopies well). For example, if you paid off or closed a particular credit card or mortgage, write paid off and closed May 23, 20XX. Believe it or not, many bankers cannot tell if a particular credit vehicle is paid off or not. Make it easy for them to see it!

Why go to all this trouble? Simple. First off, the bank now has accurate information on your credit activities. Secondly, the banker may be impressed with your knowledge. Thirdly, and this is the biggie, sometimes they'll approve a mortgage for you, if the report copy is recent, without pulling a new credit bureau file! This means there will not be an inquiry on your file for that mortgage.

Follow this strategy and check your own credit bureau report at minimum once per year, if not twice per year.

What is a Beacon®/Credit/FICO® Score?

Thanks to veteran lender and MBA Bill Buterman, of Axcess Capital in Calgary, we have a brief explanation of this complex subject. Before we get to that, you should know this is just one step in the qualification process, and the bankers use the BEACON® score as an initial Rule of Thumb. It is a snapshot of your credit risk picture at a point in time. The higher the score, the lower the risk to creditors.

Your BEACON® score is a FICO® score calculated from your Equifax credit file (FICO® scores are the type of score most often used by creditors). The BEACON® score gives your banker a quick points-based look at your current credit rating. It is supposed to be a determinant of your future ability to pay. However, like most rules of thumb, there is room for explanation and exceptions.

Your BEACON® score is a first level filter that your banker reviews. Although it isn't the final decision maker, it can affect either the approval of your loan OR the interest rate and LTV ratio you're offered. You do not need to understand exactly what the BEACON® score formula is, your job is to know that it plays an important role in the decision-making process of bankers across North America. Here is a quick overview of how it works.

What information is used to calculate my BEACON® FICO® score?

Your score is calculated in a mathematical equation that evaluates information on your credit file compared with delinquency patterns in millions of past credit files.

Please note that the higher the BEACON® score the better, which is the opposite of the R ratings on your credit bureau where R9 is not good and R1 is great. Having a high BEACON® score is what your banker is looking for. It is important to note that something as simple as two late payments on a credit card or a loan can lower your BEACON® score substantially, affecting your ability to borrow or get a low interest rate. For context, here are some details on the range of BEACON® scores:

Credit scores:

- Scores range from 300 to 900
- The average consumer has a score of 700
- First rate banks want a score of at least 640
- Second level lenders/banks want a minimum score of 600 or higher

If you are thinking of applying for a high-ratio CMHC loan for your personal residence, please be aware that despite the minimum 600 in CMHC guidelines, most borrowers need a score of 660 before they should even considering applying for a high-ratio mortgage on their own.

Another key component to the score is how many inquiries you have on your file. If you are an unsophisticated investor who is constantly shopping your loans to many institutions, it is quite easy to dramatically lower your BEACON® score. You will see files where there are 15 or more inquires, because the investor did not understand the value of building relationships with two or three key bankers.

Another action that will negatively affect your BEACON® score and your ability to get good mortgages with good lenders, is the strategy of going out and applying for a bunch of credit cards, hoping to use these funds to invest in a property. This is a TERRIBLE way to invest in real estate, very dangerous on many different levels and we recommend running away from this strategy as fast as you can. The second reason not to do this is you are then saddled with the label of credit seeker and this will drive your BEACON® score down dramatically for years. It will affect the amount you'll be able to borrow. Don't be a credit shopper or you will quickly become an unwanted commodity with bankers and business partners.

The score is based on ALL the credit related data in the credit report - not just negative data. The type of information looked at when compiling a score includes, but is not limited to:

Payment History (35%)

- Credit payment history on many types of accounts (e.g. credit cards, retail accounts, instalment loans, finance company accounts, mortgage loans)
- Public record and collection items (bankruptcies, consumer proposals, collections, judgements)
- Severity, amount, recent, and frequency of late or missed payments
- How many accounts show no late payments

Amounts Owed (30%)

- Amount owed on all accounts and on different types of accounts
- Utilization (amount of total available credit being used on revolving credit accounts)
- Amount of instalment loans still owing compared with original loan amounts
- How many accounts have balances

Length of Credit History (15%)

- How long your credit accounts have been established (including age of oldest account, age of newest account, and an average age of all your accounts)
- How long specific accounts have been established
- How long it has been since you used certain accounts

New Credit (10%)

- How many recent inquiries and new account openings in the last year
- Amount of time since most recent inquiry and new account opening
- Recent payment behaviour vs past payment problems

Types of Credit in Use (10%)

- Types of credit accounts you have
- How many types of credit accounts you have

So, no matter what you do, look after your credit rating; baby it, clean it up. And if there are any issues on your report, then make sure you highlight those and provide a legitimate explanation. Don't try to hide it as it will be found and then you'll be looked upon poorly. In the ACRE Program you are provided forms and websites for you to access your Personal Credit Bureau Report; request these reports this week.

How can I order my credit report?

Although there are many ways to order your credit report, such as by phone, fax or e-mail, the easiest and safest methods are by mail or the Internet.

By mail: If you make your request in writing and send it by mail, the credit-reporting agencies will provide you, by mail, with a free copy of your report. It is important, however, that in your request you include a copy of two pieces of I.D. Contact the credit-reporting agencies to find out which pieces of I.D. are acceptable or look on their website.

TransUnion of Canada Inc.	Equifax Canada Inc.
Consumer Relations Centre	Consumer Relations Department
PO Box 338, LCD 1 PO Box 190,	Jean-Talon Station
Hamilton, ON L8L 7W2	Montreal, QC H1S 2Z2
1-800-663-9980	1-800-465-7166
8:00am and 8:00pm ET	8:00am and 5:00pm ET
http://www.transunion.ca	http://www.equifax.com/home/en_ca

By internet: You can also order your credit report through the reporting agencies' websites. This method is faster since you will receive your credit report online only a few minutes after you made the request. However, credit-reporting agencies charge a fee for providing you with an online copy of your credit report.

Credit Score

The only way you can obtain your credit score is online, through the credit-reporting agencies' websites. The fee charged for your credit score might be higher than the cost of receiving only your credit report online. However, the cost of your credit score will include an online copy of your credit report.

Understanding Your Credit Report and Credit Score

The Financial Consumer Agency of Canada has a publication called Understanding Your Credit Report and Credit Score available for free download at their website.

This publication provides key information on how to obtain and understand your credit report and score, as well as what to do if you find errors on your credit report.

A bad credit rating makes investing in real estate, or any business venture, very difficult. Yet, thousands of Canadians find mistakes on their credit files every year. How is your credit?

Check your credit reports regularly: Be aware of what your credit report says about you. You need to know if your credit report:

- is yours and not someone else’s with the same name or birth date
- has your current credit information

Request a report annually even if you’re not looking for any loans. Request a report before you apply for financing.

Make changes promptly:
If you find any errors, it is up to you to prove them. A correction form will be sent to you with your credit report. Fill it out and send it back immediately. Once the change has been made, the credit bureau will send you a new copy of your credit report. Be warned, it usually takes at least a month for the changes to be made.

Provide accurate information:
Often the errors on credit reports are simply human error; some data entry clerk mistakenly types your address incorrectly and you don’t get your final bill. Be sure to fill out any application forms clearly so there is less room for error.

Avoid the credit-repair clinic:
These companies will simply guide you through this process for a fee. You still do all the work and make all the actual corrections and updates.

5. Net Worth Statement

This is the easiest document to describe, though it may take you a while to prepare if you haven't done one recently. A net worth statement is simply a list of all your assets and liabilities. Hopefully when you calculate your net worth by subtracting the liabilities from the assets you get a positive number!

It is recommended you keep your net worth statement stored in your computer. Use a basic Excel spreadsheet or a financial management program such as Quicken®. The key is to make it easy for you to update your statement as your portfolio changes. The more accurate and recent it is when you submit it to your banker, the better.

Hot tip #1:
Make sure the money you're using as a down payment to purchase a property is listed on the net worth statement! Remember, bankers look for consistency in your various documents. More on this in the next section.

Hot tip #2:
Sign and date your net worth statement. This senior level step is required when purchasing major properties, but also provides that extra level of comfort to your banker when working on smaller properties.

Hot tip #3:
If someone is giving you money as a gift for the purchase of the property, make sure that you have a letter, signed and dated by the gift giver, stating the amount, the date that you received the gift, and that it is completely non-repayable. Include this amount in your net worth statement. Please note some lenders will not allow gifted down payments for rental properties, and others have their own gift letter or declaration templates you must use.

Net Worth Statement Example:

Joe & Mary Investor
September 1, 20XX

Liquid Assets	
Cash	$17,256
RRSP's	$47,376
Mutual funds	$8,550
Life insurance cash value (not face value)	$12,494
Total Liquid Assets	$85,676
Non-Liquid Assets	
Personal residence	$375,000
Revenue real estate	$187,500
Rare coins	$6,300
Business interests	$75,000
Children's mutual funds	$17,847
Residence mortgage and/or HELOC balance	(210,418)
Revenue real estate mortgages	(137,017)
PLC	(17,500)
Total Non-Liquid Assets (Net)	$296,712
Personal Use Assets	
Personal property	$67,000
Automobile	$16,000
Auto loan	(5,346)
Visa – Joe	(4,321)
Visa – Mary	(2,719)
Total Personal Use Assets (Net)	$70,614
Total Net Worth	$453,002

6. Current Real Estate Owned Statement

It is important that you to understand something very clearly; almost every bank has a policy that goes something like this:

If you are a real estate investor, in many cases, a bank will take all your mortgage payments and operating expenses and deduct these from your personal income as if they were debt payments. Then, they will only take 50%-80% of the revenue from these properties to add to your income or will take a similar percentage and offset your income. This policy is called the bank's rental offset policy and it is different for every lender.

Don't you just love bank's rules? As you may have already experienced, you can hit the lending wall very quickly! The wall may be your TDS above the 40% to 44% range as we discussed earlier. This TDS rule has been the limiting factor for many experienced investors.

The good news is there is a solution.

The first step is to provide a better presentation and create stronger relationships with your banker and brokers. You WILL have a better presentation by default if you just follow what we're describing in this report. You WILL stand out as a sophisticated investor.

Because you've done everything we have recommended here, you now have a great relationship with a great broker. They like you; you like them. And they're impressed with your presentation package so far.

To ramp up your presentation you will give them a Rental Cash Flow Analysis. Why this exact format? Simply, it allows a good broker to analyze your portfolio within the context of your overall plan and determine not only the best mortgage solution for your current deal but ensure that you will be able to qualify for future deals as well.

Why does it work? Well, there are four reasons:

1) The statement makes you look good. You own a portfolio of real estate even if you have just one property
2) The statement shows that you're organized and implies you manage your assets well. You're a sophisticated investor after all.
3) The statement presents your cash flow situation in the best possible light.
4) It gives the broker a bird's eye view of your portfolio so that they can anticipate upcoming obstacles and prevent you from painting yourself into a corner.

The bank wants to know the details of your cash flow. You provide this for the same reason you complete a credit application before meeting the banker. You already know what questions the banker is going to ask, and the job of the sophisticated investor is to answer those questions in advance.

Questions such as: "What are the mortgage payments?" "Is there any secondary financing on these properties?" "What are the taxes?" "What are the condo fees?" "What are the property management fees?" "What are the other operating expenses?" And on and on!!

If you wait until they ask the questions, often, your portfolio may not look very good to the bank! Remember, they'll do their own calculations from the numbers you give them.

However, if you provide the information in a clear and concise manner, guess what usually happens? They never ask those awful questions! Because your statement clearly shows significant positive cash flow, the banker will generally accept it as is and then proceed not to include the figures in calculating your TDS ratio!!!

This statement format has helped many of our REIN Members get mortgages that would normally have been declined because their TDS ratio was too high. This is powerful stuff, if you use it!

Three important points to note:

5) Make sure the totals from the rental cash flow analysis statement match up with your net worth statement
6) Create a version of this statement (in the same format) on your computer for easy updating
7) Put the maturity dates of each mortgage on the statement. Your current banker likes to know this information. It could be a source of extra business for them as these mortgages from other institutions come due. Any banker wants more of your business, especially if they are simple renewals of existing mortgages that have a history to them. For a broker this could represent a way for them to provide you options to save money upon renewal of those mortgages or a way for them to restructure your financing and allow you to purchase more properties

7. Proof of Down Payment

When you apply for a mortgage, your banker must know you have the money to make up the difference between the mortgage amount and the purchase price. Pretty basic stuff, yet many investors have blown the mortgage approval process by not being able to prove they had the down payment! (If your income is sufficiently high enough, your banker may allow you to borrow the down payment using a HELOC. However, this doesn’t apply in all situations; each financial institution has a different set of rules on this subject.)

You see, many real estate investors use *creative* ways to come up with part or all of the down payment. While most of these *creative* techniques are perfectly legal and ethical, most bankers either aren't impressed by them or they'd rather not know you're using them. The bottom line for the banker is they need to know that if your *creative* ways don’t pan out, you still have the cash to close when the time comes. They need to protect the bank's position, so your banker is not hung out to dry at closing if you can’t come up with the cash.

As strange as this may seem, you would be shocked at the number of times that poor investors wait right up to closing day to tell their banker they no longer have the cash to close. You can imagine what hits the fan then; and of course, the trust relationship you are supposed to be building is thrown out the window. Once again, remember the banker wants to lend you money. Don’t mess around trying to make it harder than it needs to be.

Keep in mind that this proof of down payment must be in a liquid form such as cash (i.e. in a bank account), a mutual fund or stock account, government bond, or something similar. It won't work if the money is locked-in (as some corporate retirement funds are).

Over the years, we have encountered the occasional investor who described how they *faked* their proof of down payment by doing things like photocopying someone else's bank book, or borrowing money from a friend, putting it in their own bank account for a few days, then returning it. This is wrong, entering the world of fraud, and we do not recommend these techniques in any situation, nor is there any need to invest that way. Besides being dishonest, when you get caught you destroy your relationship with your banker. Real estate investing is a very serious and potentially lucrative business. Treat it as such and it will return your investment many times over. If you play games, you will get caught and the consequences are horrendous.

An increasing number of lenders ask for confirmation that the money you use as a down payment at closing is coming from the same source that you stated on your application. In other words, you will no longer be able to show your RSP statement as proof that you have the ability to use your own funds as a source of down payment, unless of course you actually intend on de-registering those funds. Bottom line, the banks will be exercising a higher level of due diligence and will expect you to do what you say you are going to do.

Another key point to keep in mind is that most lenders are not just looking for a snapshot of your down payment at a particular point in time. More commonly they require a 90 day history showing the down payment plus closing costs, or a gradual accumulation of that amount. Any deposits over $10,000 tend to draw scrutiny given the prevalence of fraud and anti-money laundering regulations.

8. Property Information

This is relatively basic, but many investors seem to forget about providing this critical information. Your bank needs to know all the details on the property you're buying before they'll lend you any money!

You need to create a brief one page outline of the property providing the bank with the critical information they're going to ask for, including:

- The property address (both civic and legal addresses)
- Brief written description of size, bedrooms, lot size, and distinctive highlights
- Any renovations that have upgraded the property in the last five years
- Purchase price and appraised value (if you have it)
- Rent (current and potential)
- Amount of money you wish to borrow
- Financing subject-to removal date
- Closing date
- Name to whom the property (and mortgage) will be registered

In addition to the property letter, you need to include copies of the following:

- The accepted Offer to Purchase
- At least one colour photograph of the property
- The MLS listing

Sophisticated Investor Financing Checklist

Now it's time to give yourself an advantage. You already know the minimum information the banker or mortgage broker is going to need and you understand the importance of having this information compiled in advance of contacting your banker with a property deal. The next step is to market your deal better than anyone else the banker has ever seen.

Yes, we did say market your deal. It is important to stand out when running your real estate business; if you don't stand out and take the extra steps, then you will be limited in your success. One of the key strategies you will use to stand out throughout your business, whether attracting tenants, negotiating purchases, selling properties, creating joint venture relationships, or working with your bankers, will be the utilization of creative marketing. Throughout the ACRE Program you will be given very clear and very effective marketing strategies you will be using in all aspects of your business. This section will provide you the exact steps to follow when presenting your deal to your banker or broker.

Some steps may seem a little odd, but let it be known these critical pieces can make or break your deal. Even if you feel a little strange putting this together for every deal – never, ever skip a step. We have worked with bankers across the country to create this system and in every case, they say these extra pieces make all the difference in the world. Once again, please remember that bankers make final decisions based on instinct and gut feel. Provide them extra comfort by adding these following items to the critical pieces described in the previous chapter. You will find this extra 10% makes all the difference:

1. Binder

The first thing you'll need is a 1-inch white binder with a clear overlay that allows you to slide in a cover page. This will become your presentation binder. Believe it or not, this alone will have a huge impact on your banker. Then, as you add the information listed below and present it in a simple and organized fashion, you will immediately raise yourself above all other investors, creating an atmosphere where you are perceived as a sophisticated investor.

You will also need a set of section dividers, which will make it easy for your banker to find the critical information. At the end of this chapter you will see how to divide all eight components.

These days you should also have a digital version of your binder ready to go in PDF format as more and more banks and brokers are moving to a paperless environment.

2. Cover Letter

The cover letter must be addressed directly to whom you're presenting your Sophisticated Investor Binder. It should have a date and be structured like a business letter. It must clearly state, in no more than four paragraphs, the following items:

- All of the information they need to provide a positive response to the application
- The fact that you look forward to working with them to achieve a positive response on this and future deals

- The date that you expect to hear back from them. (This MUST not be a panic three days or less date, or you will be lumped in with all the other investors and give them another reason to say no)
- An invitation to please call you immediately if they have any questions

Attach this cover letter to the front of your binder with a binder clip.

3. Colour Family Photo

A 5 x 7-inch colour photo of you and your family. Any copy shop can do this for you. Make sure it is not poor quality and that it captures the essence of you. I use one of us outside playing with our dog. This ensures they know they are making a loan to a person, not a faceless investor.

4. One Page Bio on You

A one-page bio on you (and your family) explaining who you are, what your interests are, what your background is, and where you're heading with real estate.

5. Copies of Your Due Diligence Analysis

Provide a copy of your Property Analysis Form and Property Planning Worksheet. These are the keys to showing you have done your homework on the property and you are not just buying blindly. It takes you to the next level of sophisticated investor. If you haven't completed these critical forms (as discussed in detail in the REIN ACRE Program), then you shouldn't be buying the property yet. Without completing the due diligence, you REALLY don't know in what you are investing. ALWAYS complete your own due diligence before you buy, no matter from whom you're buying.

6. Copies of Your Supporting Documentation

Tighter lending guidelines have meant more documentation is required in the mortgage process. If you really want to impress your banker or mortgage broker, nothing will make them smile more than a having all of your supporting documentation before they begin working on your file. Despite the fact that these documents are required each time you get a mortgage, you'd be surprised how few borrowers take the time to put these items together in an organized manner. Nothing shouts sophisticated investor like a well-organized package of supporting documentation.

The following is a comprehensive list of documents that may be required during the mortgage process. While not every one of these documents will apply to your situation or be required on every deal, pulling together as many of these documents as you can in advance will really help your application stand out in a positive way, and make sure your file moves to the top of the pile.

If you are using a physical binder you can print these out for your banker/broker and the file names won't matter much. However, if you organize your documents digitally, most brokers will prefer PDF format and nicely named documents, an example of the extra 10% that will help you stand out.

Document Name		Details
0.0	**Application, Credit & Questionnaire**	
0.1	Mortgage Planning Questionnaire – FirstName_LastName.pdf	Fully completed mortgage planning questionnaire.
0.2	Mortgage Application - FirstName_LastName.pdf	Fully completed credit application (if NOT submitting online application).
0.3	Credit Bureau - FirstName_LastName.pdf	Credit bureau for each borrower (if providing own bureau for consultation).
1.0	**Income Documents**	
1.1	201X NOA - FirstName_LastName.pdf	Notice of Assessments from CRA (Canada Revenue Agency) for the most recent tax year are required.
1.1	201X NOA - FirstName_LastName.pdf	NOA from two years prior is required for applicants who:(1) are salaried with a bonus component, (2) are self-employed, OR (3) own rental properties.
1.2	201X T1 General – FirstName_LastName.pdf	T1 Generals for the most recent tax year are required if the borrower owns rental properties or has self-employed income.
1.3	Letter of Employment - FirstName_LastName.pdf	A job letter meeting the following requirements is accepted by all lenders: • Written on company letterhead; • Listing your (i) start date, (ii) job title, and (iii) annual base salary; • Signed by an individual that can be easily reached by telephone; • Listing said individual’s contact information and job title; • Issued within 30 days of the request for mortgage financing to ensure it is considered current.
1.4	Paystub - FirstName_LastName.pdf	Most recent pay stub for each salaried borrower. If maternity/paternity leave is in effect, use EI stubs to show ongoing income.
1.5	Articles of Incorporation - BusinessName.pdf	Full articles of incorporation including by-laws are required if borrower's income is from a corporation, or if title is held in a corporation.
1.6	201X Business Financials - BusinessName.pdf	If income is from a corporation, most lenders will request a copy of business financials for the past two years.
1.7	201X T4 - FirstName_LastName.pdf	If salaried, some lenders will require a copy of

		your T4 statements for the previous two calendar years.
1.8	Separation Agreement – FirstName_LastName.pdf	If separated or divorced, a copy of the separation agreement showing support payments to be made/received, and/or proof of child tax benefit payments which normally requires three months bank statements and copies of three months of cleared cheques confirming receipt of funds.
1.9	Other Income - AccountName.pdf	Proof of other income (e.g. CCTB, CPP, OAS, etc.) by way of most recent statement from provider of that income. In addition, some lenders may require three months of bank statements to show deposits.
2.0	**Asset & Down Payment Documents**	
2.1	Chequing Statements - AccountName.pdf	Provide three months of statements for each source of down payment. These statements should demonstrate existence or accumulation of down payment funds over 90 days prior to closing. Any large deposits will need to be explained to lender. In addition, if names are not present on statements, then ownership of each account must be confirmed by matching account numbers against a client profile/overview that lists both names and account numbers.
2.2	Savings Statements - AccountName.pdf	
2.3	RRSP Statements - AccountName.pdf	
2.4	TFSA Statements - AccountName.pdf	
2.5	Investment Statements - AccountName.pdf	
2.6	Insurance Statements - AccountName.pdf	
2.7	Other Asset Statements - AccountName.pdf	If using a HELOC for down payment, the most recent HELOC statement showing funds available is required.
2.8	Gift Letter - PropertyAddress.pdf	If any portion of down payment is gifted, a gift letter is required. Often lenders have their own specific template which must be used. Many lenders require proof that the gift has been deposited.
2.9	Sale Agreement - Property Address.pdf	If any portion of down payment is from the sale of an existing home, a copy of the sale agreement may be required.
3.0	**Mortgage & Property Tax Documents**	
3.1	Mortgage Statement - Property Address.pdf	Most recent mortgage (& HELOC) statement for each property owned. Should include lender's name, mortgage reference number, approximate mortgage balance, current mortgage payment,

		status of property tax account, and mortgage renewal date. The lender's annual statement and/or renewal document are best for this purpose.
3.2	Property Tax Statement - Property Address.pdf	Most recent property tax statement for each property currently owned.
4.0	**Purchase Documents**	
4.1	MLS - Property Address.pdf	Copy of Realtor®/Broker MLS listing for the subject property in any purchase transaction.
4.2	Purchase Agreement - Property Address.pdf	Copy of the *accepted* Agreement of Purchase & Sale including all schedules, amendments, waivers, fulfillments, etc. and applicable signatures.
4.3	Appraisal - Property Address.pdf	For most purchases (especially rental properties or in situations where the price is above asking), most lenders require an appraisal, which must be ordered from an appraisal firm acceptable to subject lender. Your banker/broker can help arrange an appraisal where required.
4.4	Status Certificate - Property Address.pdf	For condominium purchases only, the status certificate should be ordered from the property management company and provided to your solicitor.
5.0	**Refinance Documents**	
5.1	Appraisal - Property Address.pdf	Appraisals must be from a firm acceptable to subject lender. Underwriting team will help arrange an appraisal where required.
5.2	Insurance Policy - Property Address.pdf	A copy of your current fire insurance policy.
6.0	**Contact & Banking Details**	
6.1	Lawyer Contact Details	Name and phone number for the lawyer you will be using for the transaction.
6.2	VOID Cheque	A voided copy of a *personalized* cheque is required by most lenders.
7.0	**Rental Specific Documents**	
7.1	Real Estate Investment Worksheet (Excel spreadsheet)	Completed Real Estate Investment Worksheet (if owning any rentals).
7.2	Lease Agreement - Property Address.pdf	Signed lease agreements (and any applicable renewals) for each property owned.

Why You'll Stand Out

Draw a mental picture in your mind of your banker's desk. On one side, they have a stack of applications either stapled together or in file folders. Each one of these applications is requiring more information than the applicant supplied, so the applicant is out searching for information. This pile is full of problems and issues.

Now, in contrast, you walk in with your nice new briefcase and well-organized information. By following the *10 Steps to Creating A Long-Term Banker Relationship*, you've already become familiar to your broker or banker. They know your face and they already have a gut feeling about you before you've even shown them your numbers. This is the time where the truth and your talk must be congruent. They're waiting for the other shoe to drop because they've dealt with hundreds of pretenders and are already inclined to believe you're just another hyped up seminar grad.

You sit down opposite them and state "I have our first property to work on together, and I believe I have all of the information you'll need for a speedy approval." They start reaching for their desk drawer filled with blank applications ready to start a whole new file to put in the pile. At this point you open your briefcase, pull out your Sophisticated Investor Binder, and hand it to them with the cover letter attached to the front.

At this point, watch their face light up, and as you walk them through your binder their smile will get larger and larger. The key is, you've just made their life easier and you won't be thrown into the pile. In fact, they will often take your binder to other staff in the office to show it off. Don't believe me? Just try it. The response will be truly amazing.

Another key thought is to have three of these completed binders on the shelf waiting for action. Then they're easy to keep updated. Often you will go through a spell of finding zero properties. Then suddenly two or three that fit your system will show up. For each application and each property, you will submit a complete binder, even if the bank already has a copy of your binder from your last application. Do not be lazy here! By assuming that they know everything, you're setting yourself up for failure. When you have a proven system, never skip a step because often it is the smallest detail that can make or break a deal.

Even if you are uncomfortable with this, still do it! That's the bottom line. If you give up this practice you may find the banker's gut feeling starts to change, and then suddenly you're not getting the service or approvals you used to get. Stick with the proven system!

This presentation binder is so important that you are provided a complete *Sophisticated Investor Financing Checklist* that will allow you to complete your binder. Follow this order to maximize your results and don't skip any of the pieces unless you are interested in jeopardizing your deal.

Your Action Plan Begins Today

Yes, it is now time to put your knowledge into action. If you combine the key elements from this report, you will come up with a step-by-step system for selecting and building a relationship with one or more bankers. This system will work for you whether you are a rookie, novice, or veteran investor. However, the key to any great system is the follow-through. Without follow-through, the system will do nothing to enhance your situation.

So, if you are truly serious about becoming a successful and Sophisticated Investor and raising yourself above the masses, then follow this simple system step-by-step:

1) Create your *Sophisticated Investor Binder*
2) Get the names of at least three good bankers or mortgage brokers from other trusted real estate investors.
3) Approach the bankers or mortgage brokers before you need a mortgage!
4) Interview all three of them in person. Look for a good personality fit, as well as their history of working with successful real estate investors. Be in charge and ask questions.
5) Once you select the one(s) with whom you want to work, take them out for lunch. Do this before you approach them for a mortgage. At lunch, no business talk, just talk about their goals and aspirations.
6) Back in their office, talk to the banker or mortgage broker about your options of pre-positioning or interest rate-hold. This gives you much more negotiating power when you submit offers because you know where you sit when it comes to financing potential.
7) Decide which sandbox you are going to be playing in with your first property, and understand the bank's rules in this sandbox.
8) Send your banker or mortgage broker a thank you card after you are approved on your first real deal. This is just good business practice and something many others never do. You are once again treating your banker or broker relationship as the important asset it is.
9) Send another card, letter or small gift after the property closes. You may want to take him or her out for lunch again.
10) Before you buy your next property, start back at number six above and follow the simple steps every single time!

Follow these steps and you will build an amazing relationship with one of the key people on your investment team: your banker or mortgage broker. Your key will be to put in the effort that it takes to create your *Sophisticated Investor Binder.* In fact, without it, you will be doomed to hitting a financial wall that can stop your investing career before it ever begins. Commit to getting your binder created within the next 15 days! Yes, it takes a little effort (especially the first one); however, the payoff is well worth it. If you think it is a lot of work now, imagine how you'll feel when you get that phone call saying "Yes! Your deal is approved." Then, compare this to the stress of pulling together your documents at the 11th hour when your deal is on the line.

Options for Financing When the Bank Still Says "No"

Sometimes you'll discover that no matter what you do, your favourite banker, or indeed any banker, will not lend the money you need for a deal. In fact, most investors hit this wall if they buy enough properties.

What do you do? Well, just remember that the bank's money really is other people's money (OPM)!

So, are there other sources of OPM? Yes! In fact, there is one source that's so good that once you master it, you'll be able to buy as much real estate as you want without ever having to go into a bank again! We're talking about investors. People like you, who want to invest in real estate, but who don't have the expertise and/or the time to do it on their own. These busy people with cash to invest can leverage your knowledge, and you can show them how to get a decent return on their cash by partnering with you. They bring their strengths to the relationship and you bring yours - a perfect match.

How does this work? You and the investor form a joint venture relationship, splitting the profits from your jointly owned properties 50%-50% (or 60-40 or 70-30 or whatever you work out). It's a great way to invest. If you use a strong joint venture agreement that covers all the contingencies for both parties, this can create very successful relationships. Make sure both parties use different law firms and each party receives independent legal and accounting advice before any major documents are signed.

There is a substantial difference between this legitimate joint venture arrangement and the fraudulent strategies that include, but are not limited to, paying someone to arrange a mortgage for you to assume, or saying that they are moving into a property when they aren't. Scenarios like those are to be avoided at all costs.

Remember, knowledge without action equals nothing. So take action today and start making a difference in your financial future by simply following a proven system and surrounding yourself with successful, like-minded people.

Sophisticated Investor Financing Checklist

Sophisticated Investor Financing Checklist

Personal Upfront Information

- ❑ Personalized Cover Letter
- ❑ Objectives & Summary
- ❑ Table Of Contents

Tab #1 The Essential Documents

❑ Income Verification

Salaried Employee:

- ❑ Letter from employer on company letterhead verifying the following:
  a. Length of employment
  b. Guaranteed salary and/or hourly wage
  c. Capacity – full time, part time, contract, seasonal etc.
  d. Contact information for employer for verbal verification
- ❑ Recent Pay stub
  a. Current pay stub
  b. Last year, year-end pay-stub confirms previous year's earnings
- ❑ Copy of Last Two Years' Income Tax Notice of Assessments and/or T4 Statements (if available, if less than two years, provide what can, and explain your situation)

Self Employed and/or Commissioned Sales:

- ❑ Copy of Last Two Years' Income Tax Notice of Assessments and/or T4 Statements (if less than two years, provide what you can)
- ❑ Must be accompanied by last three years T1 Generals to verify source of income (if less than two years, provide what you can)
- ❑ Last two years corporate financial statements if business is incorporated to provide proof of sustainability of self-employment income (if applicable, if less than two years, provide what you can)
- ❑ Analysis Letter from Accountant (a document that can help you normalize your earnings). Bottom line: prove to the bank you are a strong candidate to borrow money

❑ Down Payment Verification (for new purchases)

- ❑ Cash in Bank Accounts
  a. Cash from accounts needs 90 days proof/official bank statements (not online printouts)
  b. Need to be able to justify any large deposits on bank statements (provide the back-up documents)

- ❑ Liquid Assets including
  a. RSP Statements
  b. Mutual Funds Statements

c. TFSA
d. Term deposits, shares in corporations, etc.
e. ____

- ❑ Rental Property Verification (current property owned)
    - ❑ Debt Service Coverage Ratio (DSCR) worksheet up to date and accurate. Or ask your mortgage professional what spreadsheet they use to calculate rental properties; each bank or mortgage professional will have their own template and rules, provide the information to them in the document they use
    - ❑ Provide back-up detailed back-up information for all properties on the DSCR rental spreadsheet
        a. ALL Current lease agreements
            - Or original lease agreement with tenant acknowledged rental increase letter.
        b. Letter verifying ownership and rental amount is required for all properties if lease is in the name of a property management company
        c. Appraisals (if you have)
        d. City assessments, for valuation and tax payment verification
        e. Copies of mortgage statements, for mortgage payments and current mortgage balances

Tab #2 Your General Information

- ❑ Color photo of you and your family
- ❑ One-page bio of you
- ❑ Personal net worth statement (signed and dated)
- ❑ The banks completed credit application (signed and dated)

Tab #3 Your Detailed Back-up Information

- ❑ Verification Documents for Items on Net Worth Statement
    a. Stock portfolios - Mutual Funds
    b. RRSP Statements, TFSA's, Term Deposits, Bonds
    c. Business ownership papers
    d. Business bank statements
    e. Business profit & loss statements
- ❑ Copy of your credit bureau report

Tab #4 Property Information

- ❑ Color photo of the property
- ❑ Written description of the property- why this property will make a good investment (selling the deal to the bank)
- ❑ Copy of listing from realtor (if applicable)
- ❑ Approved appraisal (if you have one)
- ❑ Accepted offer of purchase agreement
- ❑ Property goldmine scorecard
- ❑ Property analysis form - property cash flow performance
    - o Include new property purchase in DCR sheet
- ❑ Property planning sheet

Step

15

Managing for Cash Flow

Your Guide to Getting Started in Managing Your Real Estate Investments

Be a Demographic Specialist

A savvy real estate investor understands that he/she needs to be a demographic specialist. This means you need to be clear and realistic about the tenant profile you want to attract to rent your property.

Before buying a property, consider the dream tenant you want:

- What is their annual income?
- What is their employment type/history?
- Are they married?
- Do they have kids?
- Are they a student?
- Do they have any pets?
- How old are they?

Examples:

Student
- Most often want leases that match the school year (8-10 months)
- Price sensitive
- Require less space

Low Income
- Can be higher turnover
- Less likely to collect on damaged suites
- Can be late with payments or miss payments

Roommates

- Generally younger
- Can split up

Determine the tenant profile for the area in which you're searching. What neighbourhoods appeal to your tenant profile?

- Go for a walk in the neighbourhood during the day and evening
- Get to know the neighbourhood, community activity, cars people drive, and general care of the homes in the area
- Visit the stores in the area to get an idea of who lives in the neighbourhood
- Look at the age, culture/nationality, and the types of and condition of the stores in the area
- What grades do the schools in the area accommodate?
- Walk the street and talk to neighbours about the area
- Visit the local police station and ask about the neighbourhood

- Visit the community center
- What other types of homes are in the area? Apartments? Townhouses?

When you know your tenant profile you will:

- Attract the best tenant for the area you are buying in
- Rent your property out more quickly
- Establish realistic rental rate expectations
- Know the best type of property to invest in to attract your dream tenant

Consideration:

Do you have the capital to wait to find the right tenant? The right tenant makes investing easy, the wrong tenant creates challenges and expense. It's quite simple to place a tenant in your property/unit. It takes focused effort to rent to the right tenant(s). Make the right decision, not the quick decision!

The following is an example of the general demographic that was moving to, and living in, Grande Prairie, Alberta between 2006 – 2008. The tenant profile was:

- Young single men and women
- Some young families
- Roommate situations (two to six young individuals willing to share the cost of rent)
- Required garage for toys such as boats, snowmobiles, second vehicles, motorcycles, etc.
- Required parking for vehicles, boats, and snowmobile trailers
- Transient (high turnover)
- Coming to the city to work hard, for high pay, and play hard
- Wasn't planning on staying more than two years
- Smokers, pets, parties, and recreational drug use
- Price conscious but willing to pay for a nice unit
- Average to poor credit ratings

By understanding the demographics and tenant profile specific to Grande Prairie at this time, one should have considered purchasing properties that would serve the tenant profile. Consider properties with the following qualities:

Houses with suites

- Separate entrances
- Separate laundry
- Fenced yard (for pets) with deck

Houses with garages

- Provides extra rental income per month
- Valued by tenants
- Considered availability of parking on the property and on the street

Average to good neighbourhoods

- Study and monitor rent pricing for the areas to be sure it fits the tenant household income
- Houses close to amenities such as shopping and schools

- Choose properties which required less upkeep. For example, they might have vinyl siding, limited landscaping beyond lawn, paved driveways, linoleum floors in kitchen, good fixtures, and limited carpet

Be a Geographic Specialist

A geographic specialist is aware of, and understands, the common buying oversights that can create future chaos, which include not completing due diligence of a neighbourhood and inadvertently buying in a questionable area. On the surface the math appears to work so well that it's hard to pass up, but in the end, you find that your tenant profile is not what you want. Some areas attract drugs, prostitution, bar fights etc., so take the time to get to know the area.

Not identifying what the tenant profile is for the area and whether it fits your plan/vision could result in you paying a premium purchase price for a great house in the wrong neighbourhood. This will result in having to receive premium rent to break even or cash flow on the property which could cost you a lot in the long run. A house overbuilt for an area will only ever generate the maximum rent level based on the tenant profile of the neighbourhood, regardless of how nice the house is.

Expecting high rents in a lower income neighbourhood is problematic as higher income tenants don't live in lower income neighbourhoods. Do your own research of rents for the area. Don't take one person's word on the average area rents, especially if they have a financial interest in you buying the property.

Not understanding the motives of the vendor or the vendor's realtor can also create problems A vendor's realtor is being paid to sell the house and a private vendor does not have the same disclosure rules as a realtor. It is up to you as a savvy investor to confirm the property value, condition of the home, and area rents. Do your own diligence and math and do not make a buying decision based on someone else's numbers.

Be a Marketing Specialist

Determine the correct rental amount for your property. Residential real estate rental rates are dictated by the overall market. To determine market rents for an area, research at least three popular property rental sites and determine the high, low and average for the area. Compare your unit to the current ones on the market for rent. You could even visit rental units in your area as a potential tenant to see first-hand what the other units in the area are offering. This allows you to determine if your property will command a higher rent. Once your ad is up, if you find you're receiving no calls and no showings you need to consider adjusting the rent as it may be too high. If you are getting many calls and showings but no one is renting, this means the price is likely too high for the quality of the unit. Although a vacancy allowance should have been part of your due diligence on the property before you purchased it, you may have to ask yourself what is the cost to you if the unit is vacant one or two months? If your property is not rented by mid-month, you may want to consider adjusting the rent. Losing another entire month's rent may cost you more than slightly lowering the rent.

You could even consider running ghost ads with varying rental rates to determine if your asking price is appropriate. Based on the number of calls you receive, adjust your ghost ad weekly if necessary. By adjusting the asking price weekly you will achieve the highest rent possible. You can also start higher than average and work downward as needed.

Understand the time of year you are renting in, winter versus summer. Be pro-active in renting your property before the snow falls. Depending on where in Canada you are investing, attracting a tenant to fill a vacant property between November 15 and March 1 is generally more challenging. Going into the winter months you may want to consider a six-month lease versus a 12-month lease. Take into consideration that a 12-month lease starting on December 1 will end on November 30, while a six-month term will end on May 31 providing more options.

Use the following REIN Solid Oak Marketing practices:

Post your ad on internet rental websites that allow for unlimited words and pictures. Free sites like Craigslist and Kijiji are great places to start. It is best you post your ad on multiple sites, other examples include Rentfaster and Rentboard. Make sure your ads are clear by specifying whether the rental is a garage, basement suite, main floor, or entire house. Use words like warm, beautiful, and friendly. Make sure you include pictures that are detailed, staged and appealing. Include images of the kitchen, bathroom and yard, if applicable.

Using lawn signs is one of the most effective ways to attract tenants. People in the area are always looking for a better or different unit in the same neighbourhood. A sign will also attract friends within the area. For your sign, use clear and legible lettering. Stick-on numbers or stenciled numbers look better than signs that are hand-drawn with felt marker. Place your signs strategically so that both directions of traffic can see them.

Renovations:

Renovations might be required to attract the right tenants by creating the perception of a higher value, without a significant additional cost. Paint the walls, buy new appliances, and install new blinds. Replace dated light fixtures, door handles, cupboard handles, light switches, and electrical outlet plates. Make sure closet doors and entrance doors aren’t sticky and lock properly. Create a wow factor relative to the comparable properties in the area. Many tenants will pay above market rents for these details.

Treat your Real Estate Investing Like a Business

Recognize the importance of finding the right tenant for the right property in the right neighbourhood. The wrong tenant makes an investing experience difficult and costly through lost rent, damage, and late-night phone calls. The right equity building tenant makes an investing experience easy and profitable through timely rent, maintenance of the property as if it’s their own, and only calling when it’s necessary.

You should be able to relate to your tenant and engage them in the process. Ask them for their input; your tenant needs to know that their satisfaction matters to you. Make sure any agreements or comments get written down and followed up on; if it isn’t written down, it doesn’t exist.

When screening your tenants, remove emotion from your decisions. Tenants can have good stories that will play on your emotions. Get a second or third outside opinion to ensure there is no emotion. A quality tenant will pay a premium rent for a great home. Remember it’s not your home; you will not be living there. Make it current and relevant to your tenant profile, and always safe and clean. Supply a great property and your tenant will make it a home!

When to begin preparation and marketing:

Begin the day conditions are removed. Add a condition to your purchase offer requesting to put up a for rent sign, and permission to show the property to potential tenants or contractors, with 24 hours' notice to vendor. Begin booking services for renovation as soon as conditions are removed. Time is of the essence here, so plan by setting a desired tenant move-in date and work backwards from that date. Make a list of any deficiencies that may need to be completed on the unit. Get price quotations for the work. Determine and book contractors to begin on possession date or as close to it as possible. While you should already know what approximate rents you can expect from this property because you did your diligence before you purchased, you should immediately begin market survey to determine the exact rents for unit/area at this point in time.

When to start showing the unit to potential tenants if you are renovating:

If renovating, try to show the unit once the new paint color is on the wall. Tenants do not always hold the same vision of the result as you and having it painted will help them understand what the property will look like when it's done. You could also have a sample of flooring to show potential tenants, if necessary. Try not to show the unit when it is under heavy renovations or during the demolition stage. If some renovation work is going on during showings, make sure the work site is tidy and looks organized.

When to accept a tenant's application:

Have a clear process to follow and do not stray from it! Accept a potential tenant only after they have passed your approval process. Make sure they have viewed the unit, and you believe you have gotten to know them enough to make an informed decision on whether they will be a good tenant. The application form must be filled out, preferably at time of showing. You must have gathered all contact information and verified it (email, phone numbers). REIN recommends you enlist a tenant verification services company. You can request a co-signer if the tenant's credit score is low or the verification company has flagged the tenant.

Five pro-active steps to follow during the application process:

1. Pre-screen applicant on the phone:
   Ask detailed questions and remember your dream tenant list!

2. Show the unit to prospective tenants:
   Confirm detailed questions asked on the phone. What's your gut feeling? How did they present themselves?

3. Call references:
   Get to know their previous landlord(s). Be soft and friendly. Ask open ended questions.

4. Perform credit check:
   Ideal credit score? Lots of available credit is sometimes bad. Are they credit seekers? Make sure you get consent from your potential tenant to do a credit check. Ensure that local privacy laws allow for credit checks

5. Run all info by second and third party for confirmation:
   By this stage you may have emotional attachment to the tenant. Provide your second and third-party eyes only the facts and do not tell them the tenant's story. If they approve then you have a new tenant!

Know when it's time to hire a property manager by considering the following options:

Licensed Property Managers:

Collect the rent and deposit it into their accounts. They pay all bills and expenses on your behalf. They will evict the tenant if they do not pay rent on time, and deal with all calls from the tenant(s). They typically charge 8-12% of rent, plus expenses. The company disperses net proceeds to the owners around the 15^{th} to the 20^{th} of the month.

Self-Management:

You manage the tenant(s) and take the calls. You must interview and choose the tenants after showing the property to potential tenants. You collect and deposit rents, and manage maintenance; therefore, you are either the handyman or you hire the handyman.

Assisted Property Manager:

Could be a Realtor®, a non-licensed property manager, or a friend/family member who will complete all the above noted tasks for you.

Questions to ask during an interview with a Property Manager:

How many doors do they manage?
How many clients do they have?
How many staff do they have?
What is the policy of time lines for call-backs to owners and tenants?
How many maintenance staff do they have?
What's the policy for repair timelines?
What's the policy for informing the owners of the repairs that are needed and the costs?
What's their policy on timelines and price quotations for maintenance issues?
What's their policy on regular inspections and reporting to the owners?
How do they screen the tenants and how do they report to the owner for approval?
Do they perform reference checks, and what is their protocol?
Do they perform credit checks?
Do they use tenant verification services?
What is their process for completing move-in reports?
Do they take and provide move-in pictures to both you and the tenant?

Lease Agreement:

Consider the length of lease term and if it is a periodic or fixed term. The garage is leased separately.

Security Deposit:

Refer to the local tenancy act for guidance on if, and how, you may take a security deposit from a tenant and what to do when the tenancy is over. Generally, a receipt must be provided to the tenant for a non-refundable deposit on rent which then becomes the security deposit after the move-in. This money must be held in a trust account as interest may have to be paid.

Move-in Phase:

Accommodation Inspection Report: "If it's not in writing and signed, it doesn't exist" - Shayle Rothman. As much detail as possible with clear notes. Engage the tenant in this process. Be clear and document everything discussed and agreed to.

Pictures: Take multiple pictures of every room including pictures of any damage in a room as proof for tenant. Review all pictures with your tenant before leaving the property. Make sure you date stamp all pictures.

Paperwork: Have the tenants sign all paper work after going over the reports in detail with them. The tenant must be provided copies of the report(s).

Utilities:

These are simple strategies to increase your cash flow. Tenants like to know their budget and charging a flat rate for utilities is an effective strategic to increase rent $25 - $100 a month. Start with these suggested guidelines:

3-bedroom Main Floor = $250-300 per month

2-bedroom Basement Suite = $200-225 per month

Pet Fees:

Refer to local tenant act on guidance on if and how you may take a pet fee from a tenant. Pet deposits are becoming common place but remember to interview the pet and determine if the owners are responsible and the pet fits your per tenant profile. Monthly charge per pet ($50-100/month) *if no pet deposit

Move-out Phase:

Accommodation Inspection Report:: Lots of detail and clear writing. Include multiple pictures of each room.

Pictures: Document any damage to the home.

Paperwork: A move-out report is a must. If the property is damaged an estimate may be needed if you're pursuing a deduction from the security deposit. Return the security deposit. Statement of accounts must be sent out within your province's legislated timeframes. If any money is being withheld, as allowed by law, receipts must be provided. If estimates were done and money is being withheld for the work, then the balance must be sent back within 30 days.

Things to Know!

The tenant act prevails over anything in your lease. Landlords can only raise rent within the guidelines of the applicable provincial Landlord and Tenancy Act. Review and understand the provincial/municipal rules of the location of the property you're investing in.

Filling Vacancies Checklist

Filling Vacancies Checklist

NOTES

Tenant Gives Notice to Vacate

Tenant should give you minimum 30 days notice. If timeline is tighter, follow the same steps in the system. Do not skip any steps.

Make Appointment and View Property

View immediately.
Provide proper notice to view property.

Provide Tenant with Move-Out Forms

- Copy of lease
- Use Accommodation Inspection Report
- Use Tenant's Move-Out Clean-Up Checklist
- Use Tenant Utilities Information Re-

Complete Tenant Exit Questionnaire

If equity building tenants are moving out, determine: why they are moving (info about the property); do they have referrals for next tenants; their next steps (can you help solve problem or refer to another REIN member?)

Assess Property Condition

Use Rent Ready Checklist

Rent Ready

Renovation Work Required

Send Rent Ready Checklist to property maintenance team.

Line Up Renovation Team

Complete Rental Research

Use Rental Comparables Worksheet
Research: offline (newspapers), online (rental sites, Google searches)

Pre-Book Appointments

Call current tenants and pre-book times for showings or preliminary renovations.
Use Notice to Enter Premise Form

3 P's of Marketing

- Product: quality of unit comparables, market niche (pets, furnished, etc)
- Price: Premium/Over Market? Discount? Rebates?
- Promotion: Advertising? Promotion? Publicity?

Marketing:
Ad Development

Use REIN Solid Oak Marketing Report

- Unique selling proposition (what sets your property apart from the competition?)
- Headline—strong, attention grabbing
- Ad Copy—benefit laden marketing copy

Marketing:
Media Sources

Property & Area

Online

- Renthello
- Rentboard
- Rentfaster
- Gottarent
- Homerent
- Kijiji
- Craigslist
- Facebook
- Myreinpsace.com

Offline

- Newspaper
- Rental magazines
- Referrals
- Current Tenants
- Other Tenants
- Use Tenant Referral Program

- Lawn signs
- Signs in windows
- Directional signs
- Flyers
- Signs in local shops

Generate Leads

Phone: Let voice-mail or live answering service filter out many of the prospects.

Email/Website: Have an auto-responder email help filter out people, or guide them to specific websites.

Pre-Screen Prospective Tenants

Use critical tenant interview questions to weed out suspects from prospects. Spend your time with prospects.

Show Property

Use *Application for Rental Accommodation* Form

Complete Application Process

- Previous landlord check
- Credit check
- Employment check

NOTES

Unconditional Acceptance

↓

Sign Lease — Use lease agreement

↓

Collect Full Deposits
- Certified funds or cash
- Provide receipt

↓

Book Move-In

↓

Move-In Day
- Welcome basket—be creative
- Hand over keys
- Use Accommodation Inspection Report
- Take photos of all areas with date stamp, have tenant in a few pictures
- Review property manual with tenant which includes: lease, tenant move-out clean-up checklist, other agreements

↓

Celebrate!

Accommodation Inspection Report

Address of Rental Premises:	Name of Landlord/Agent:
Name of Tenant:	Name of Tenant:
Name of Tenant:	Name of Tenant:

Inspections should be conducted when premises are vacant unless the landlord and tenant or their agents otherwise agree

	In Condition				Out Condition			
Keys	Number of keys issued for premises Mailbox				Number of keys returned for premises Mailbox			
Entrance	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling								
Doors, Closets								
Windows, Screens								
Electrical Fixtures								
Kitchen	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling								
Countertops, Sinks								
Cupboards, Doors								
Stove/Hood								
Fridge								
Dishwasher								
Windows, Screens								
Electrical Fixtures								
Living/Dining Room	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling								
Doors, Closets								
Drapes, Rods								
Windows, Screens								
Fridge								
Electrical Fixtures								
Bedroom 1 (10x10)	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling								
Doors, Closets								
Drapes, Rods								
Windows, Screens								
Electrical Fixtures								

	In Condition				Out Condition			
Bedroom 2 (with bath)	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling								
Doors, Closets								
Drapes, Rods								
Windows, Screens								
Electrical Fixtures								
Bedroom 3 (walk-in)	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling								
Doors, Closets								
Drapes, Rods								
Windows, Screens								
Electrical Fixtures								
Main Bathroom	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling/Fan								
Doors, Closets								
Windows, Screens								
Toilet								
Sink, Vanity, Mirrors								
Bathtub, Shower								
Electrical Fixtures								
Bathroom 2 (in bedroom)	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Walls, Trim								
Floor Covering								
Ceiling/Fan								
Doors, Closets								
Windows, Screens								
Toilet								
Sink, Vanity, Mirrors								
Bathtub, Shower								
Electrical Fixtures								

Exterior	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Entrance Walk								
Roof								
Gutters								
Siding								
Doors								
Lawn, Plants								
Fence, Gates								

Basement	OK	Needs Repair	Needs Cleaning	Description	OK	Needs Repair	Needs Cleaning	Description
Stairs/Floor								
Walls/Windows								
Light Fixtures								
Hot Water Tank								
Electrical Panel								
Furnace/Central Air								
Washer/Dryer								

Additional Notes:		In Condition	Out Condition
Location	Item	Description	Description

When the landlord and the tenant inspect the premises together. Complete #1 and either #2 (a) (b) or (c).	1. The inspection of the premises was conducted on ________________________ by Date _______________________ and by ___________________ . Landlord or Landlord's Agent Tenant or Tenant's Agent ______________________________________ Signature of Landlord or Landlord's Agent 2. (a) I, _________________________, agree that this report fairly represents the condition of the premises _________________________________ Signature of Tenant or Tenant's Agent ***OR*** (b) I, _________________________, disagree that this report fairly represents the condition of the premises for the following reasons: ____ ____ ____ ____ ____ ____ ______________________________ Signature of Tenant or Tenant's Agent ***OR*** (c) The tenant or tenant's Agent present at the inspection refused to sign the Tenants statement. ______________________________________ Signature of Landlord or Landlord's Agent	1. The inspection of the premises was conducted on ________________________ by Date _______________________ and by ___________________ . Landlord or Landlord's Agent Tenant or Tenant's Agent ______________________________________ Signature of Landlord or Landlord's Agent 2. (a) I, _________________________, agree that this report fairly represents the condition of the premises _________________________________ Signature of Tenant or Tenant's Agent ***OR*** (b) I, _________________________, disagree that this report fairly represents the condition of the premises for the following reasons: ____ ____ ____ ____ ____ ____ ______________________________ Signature of Tenant or Tenant's Agent ***OR*** (c) The tenant or tenant's Agent present at the inspection refused to sign the Tenants statement. ______________________________________ Signature of Landlord or Landlord's Agent
When the landlord inspects the premises without the tenant.	3. The inspection of the premises was done on ______________________ by _________________________ Date Landlord or Landlord's Agent Without the tenant or the tenant's agent being present. ______________________________________ Signature of Landlord or Landlord's Agent	3. The inspection of the premises was done on ______________________ by _________________________ Date Landlord or Landlord's Agent Without the tenant or the tenant's agent being present. ______________________________________ Signature of Landlord or Landlord's Agent

Tenant's Forwarding Address

(On Move-Out):

____

____

Tenant Move-Out Clean-Up Checklist

Your suite was provided in clean condition upon move-in as per the move-in checklist signed by both the tenant and the landlord.

The actions on this checklist are to be completed by the tenant on or before move out. Please make note of any repairs that are required in the appropriate space provided.

Please provide this completed checklist to the landlord upon final move-out inspection.

General clean up responsibilities for all rooms

- Remove all your personal possessions
- Remove all garbage and debris
- Wash all dirty marks and scuffs from walls and doors
- Clean windows including window frames
- Vacuum carpets or rugs thoroughly – remove stains and have professionally steam cleaned if required due to pet
- Sweep and wash floors thoroughly (damp mop hardwood floors)
- Wipe dust out of heat registers
- Wipe baseboards clean
- Vacuum and wipe dust from window blinds
- Dust or vacuum all curtains or blinds
- Dust light fixtures
- Replace all burnt-out light bulbs

Bedrooms

- Clean all marks and remove all pictures and posters from walls
- Completely empty closets, and wipe all shelves and counters
- Clean window sills
- Repairs Required:

  ____

Bathrooms

- Thoroughly clean bathtub, tile walls, toilet, and sink
- Clean grout and caulking
- Clean mirrors (no streaks)
- Wipe out medicine cabinet
- Wipe out the inside of the bathroom cabinets
- Clean shower curtain (if it stays with the property)
- Repairs Required:

  ____

Laundry and Utility Room

- Thoroughly clean washer and dryer (if included)
- Wipe hot water tank and furnace (if dirty)
- Sweep and wash floors
- Clean out any storage shelves or cabinets
- Repairs Required:

  ____

Kitchen

- Thoroughly clean stove, including under the elements and range hood.
- Clean the oven with professional cleaner (or use the self-clean option)
- Ensure oven racks and broiler pan are clean and in the stove
- Defrost freezer (if not frost free)
- Ensure ice trays and all fridge racks are washed and replaced
- Thoroughly clean inside and outside of fridge
- Thoroughly clean dishwasher and microwave (if included)
- Thoroughly clean sink and countertops
- Thoroughly clean inside and outside of all cabinets
- Repairs Required: ____

Outside and Yard

- Remove all garbage and debris from the premises
- Cut the grass and have the flowerbeds weeded
- Clean all sidewalks and entrances of snow (if applicable)
- Thoroughly clean the outside doors and mailbox
- Wash outside windows if dirty (if on ground floor or basement)
- Remove all personal possessions from storage sheds and garages
- Sweep out storage shed and garage and wash out with garden hose if dirty
- Repairs Required: ____

List any additional repairs or maintenance issues that the suite requires
(i.e. dripping taps, hot water tank not performing well, window leaks etc):

____

____

____

Note: The landlord may be entitled to deduct any charges from your security deposit to perform any cleaning responsibilities you leave incomplete upon vacating the rental property. Current market rates for this service start at $45 per hour. Normal wear and tear to a property is acceptable but leaving it in a dirty condition for the next tenant is not. You will also be charged for any expenses the landlord incurs to repair any damages you were responsible for during your tenancy. For additional information regarding your responsibilities upon moving out of this suite, contact your nearest Landlord and Tenant Advisory Board.

Sample - Tenant Utilities Information Release Consent

Please provide the following information and sign the authorization below (please print clearly).

Account Holder's Information

Account Number:____

Account Holder Name(s):____

Individual(s) or organization(s) authorized to receive information:___________________

Information you authorize to be released:

- Power & Electricity
- Heat
- Water & Sewer
- Garbage
- Cable
- Any other utilities:
  ____
  ____

Authorization

I/we, the undersigned, hereby authorize and direct the utility corporation(s) to release the information identified above to the party or parties specified in this form. I/we acknowledge and agree that the utility corporation(s) has (have) no control over, and shall bear no responsibility or liability for, the actions of a third party with respect to personal information released by the utility corporation(s) in accordance with this consent form.

Date: ____

Account holder #1 name: ____

Signature: ____

Account holder #2 name (if applicable): ______________________________________

Signature: ____

*NOTE: Where there is more than one account holder, the utility corporation(s) may be unable to fully provide all information authorized by this consent unless all persons named on the account have signed this consent form.

Third Party's Information (to whom you authorize your personal information to be directed)
Name of landlord: ____

Mailing address: ____

Phone number: _____-_____-_______ Email address: _________________________________

By signing above, I hereby authorize the utility corporation(s) to contact the landlord should the account become delinquent at any time. I acknowledge that my personal information may be transmitted by the utility corporation(s) by mail, phone, fax and/or e-mail.

Sample - Notice to Enter Premises

Date: ________________________ Mailed: Y / N In person: Y / N

Tenant(s) Name(s): ____

Property Address: ____

City: __________________________ Prov: ____________ Postal Code:________________

If different than noted above:
Access to premises at: ____

This notice has been sent to advise that the management team will be entering the property for the purposes of:

- Inspecting work completed by contractors, tenants, or agents of the manager
- Performing maintenance or service inspection and/or work
- Reviewing the premises for upcoming decorating, renovations, or alterations
- Inspection by municipal authority
- Showing to prospective tenants or purchasers (see schedule of access listed below)
- Other: ____

Access Schedule to Premises:

Date: _______________________ Time: _____am/pm to _____am/pm)

Date: _______________________ Time: _____am/pm to _____am/pm)

Date: _______________________ Time: _____am/pm to _____am/pm)

We will likely be using a master key to access the premises if you are not physically home to provide access.

Please prepare the property for showings and ensure the property is being maintained in good condition and cleanliness as required by your lease during this time.

Should access to equipment behind TV, stereo equipment, computers or furniture be required, please take care of the relocation of these components before we arrive on site. We will not be held responsible for any re-adjustments or damages to equipment etc. because of the Tenant(s) forgetting to make clear access to components.

We will do our best to minimize interruptions and disruptions to your tenancy, but work must be completed. Should additional access be required, we will advise you accordingly.

Regards,

Landlord/Landord’s Agent

Rent Ready Checklist

You are not rent ready until all boxes are checked off.

Address:

✔	Item	Description	Notes
		Exterior	
	Siding & stucco	Neutral colours, not torn or dated	
	Windows & door frames	Modern colours, capped	
	Roofs, eaves, & downspouts	Clean, directed away from the house and not damaged	
	Exterior door	Modern colour - half moon glass	
	Locks	Brushed nickel, keys ready and working	
	Landscaping	Clean, trees trimmed or removed, lawn is mowed, graded away from house	
	Fences & decks	Painted or stained with no rot	
	Garage	Clean, door in good condition	
	Front door light	Modern, brushed nickel or white	
	House numbers	Modern, brushed nickel or white	
	Mail box	Modern, brushed nickel or white	
		Interior	
	Paint - walls	Neutral colours – beige or light grey	
	Paint – trim, baseboards, doors	White	
	Paint – ceiling	No stains, sprayed or rolled	
	Flooring	Modern, good condition, clean	
	Interior & closet doors	White, 6 panel, brushed nickel handles	
	Light fixtures	Modern, brushed nickel	
	Floor & fresh air vents	Modern, white	
	Switches & plugs	Modern, white	
	Window treatments	Modern, white, faux wood, curtain rods	
	Smoke & carbon monoxide detectors	Modern, white, functional	
		Kitchen	
	Cabinets	White or dark wood	

	Cabinet handles	Modern, brushed nickel	
	Countertops	Dark with white cabinets, light with dark cabinets	
	Backsplash	Modern colour, mosaic tile	
	Sink	Modern finish, double sink	
	Tap	Single lever, unique	
	Appliances	White, black, or stainless, good condition	
Bathroom			
	Tub	Modern, white, no chips	
	Toilet	Modern, white, double flush option	
	Sink	Modern, white, stainless or brushed nickel faucet	
	Tile & tub surround	Modern tile, one-piece inserts	
	Cabinet & handles	Modern, match kitchen	
	Countertop	Modern, match kitchen	
	Backsplash	Modern, match kitchen	
	Medicine cabinet/mirror	Modern, brushed nickel frame	
	Fan	Clean, functional, vented to outside	
	Finishing items – toilet paper holder, shower rod, etc.	Modern, brushed nickel	
Basement - undeveloped			
	Furnace	Clean, high efficient	
	Hot water tank	40-50 gallon, power vented	
	Foundation	No cracks or repaired cracks	
	Floors	Painted, clean	
	Walls	Clean, insulated & vapour barrier	
Basement - developed			
	Furnace	Clean, high efficient	
	Hot water tank	40-50 Gallon, power vented	
	Foundation	No cracks or repaired cracks	
	Floors	Modern, good condition, clean	
	Walls	Painted, neutral colours – beige or light grey	

REIN REAL ESTATE INVESTMENT NETWORK

Rental Comparables Worksheet

Address	Type	Number of bed and bath	Advertised rental amount	Notes
Your Property				

The Critical Tenant Interview Questions

You will be dealing with a number of different potential tenants during your life as an investor. Your job is to wade through the masses and choose the one who will become an equity building tenant, someone who adds to the experience of owning a rental property.

The following key questions will guide you through the interview process. They are in specific order and the words have been chosen specifically to be open ended where required. Just read along and make notes, you'll soon find the type of tenant you're looking for! Be respectful but remember, you are to take control of the conversation, not the prospective tenant.

Tenant's Name: ___________________________________ Date Called: ______________

1. Where did you hear about our place for rent? ______________________________
2. When are you looking to begin your next tenancy? _________________________
3. How long do you want to rent for? ____
4. Are you serious about this place or are you just looking for now? _____________
5. How long have you been living at the place you are now? ___________________
6. Do you have any pets? ☐ no ☐ yes _________________________________
7. How many people will be renting the place? ________________________
8. Have you already given your current landlord proper notice? ☐ no ☐ yes
9. May I ask about your job? How long have you been working there?
10. The security deposit is the same as one month's rent and is due before you move in. Do you foresee any problems with this? (ask only if applicable to your province)
11. May I have your contact information please?

    Alternate phone: _____________________________________

    Email: ____

I will be showing the place tomorrow night at ________am/pm. Should you wish to come, you must confirm by one hour before the agreed upon time. If you do not call to confirm your appointment, I will not be there to show you the place.

Please make note of my telephone number and the time to confirm.

Notes:____

____

____

Applicant Information

Full Name: ______________________________

Phone Number: ______________________________

Email: ______________________________

Number of Occupants: ______________________________

Expected Length of Tenancy: ______________________________

Previous Residence

Address: ______________________________

City: ______________________________

Province: ______________________________

Country: ______________________________

How long did you live there for? ______________________________

Reason for leaving ______________________________

Landlord (may be contacted for a reference)

Full Name: ______________________________

Phone Number: ______________________________

Email: ______________________________

Previous Residence

Address: ______________________________

City: ______________________________

Province: ______________________________

Country: ______________________________

How long did you live there for? ______________________________

Reason for leaving ______________________________

Landlord (may be contacted for a reference)

Full Name: ______________________________

Phone Number: ______________________________

Email: ______________________________

Have you ever been evicted? ______________________________

Do you own any pets? ______________________________

If yes, describe? ______________________________

Do you consent to a criminal record check? ______________________________

Do you consent to a credit check, if necessary? ______________________________

Terms to be included in lease agreement, if applicant is approved:

a. Rent will be $________, per month. Due and payable on the first day of each month.
b. Utilities will be the responsibility of the tenant at a cost in addition to their rent
c. Tenant must ensure his or her own property against damage or loss
d. No smoking, of any kind, on the premises or the area surrounding
e. No pets, unless written permission given by the landlord

Approval of this application is subject to the Landlord and Tenant signing a Residential Tenancy Agreement.

____
Name of Applicant

____
Signature of Applicant

____
Date

Basic Residential Lease Agreement: Sample

Basic Residential Lease Agreement – Sample

Disclaimer - This is an example, and you must check the laws, regulations, leases, and requirements of the province or territory your property is located within:

The Lease

Received from: ____ hereinafter referred to as the Tenant, the sum of $___________________, as a deposit which, upon acceptance of this Lease shall belong to the Owner of the premises, hereinafter referred to as Owner and shall be applied as follows:

	Received	Payable prior to occupancy
Security Deposit	$___________	$___________
1st months rent	$___________	$___________
TOTAL	$___________	$___________

In the event that this agreement is not accepted by the Owner or this authorized agent, within _____ days, the total deposit received shall be refunded. Tenant hereby offers to lease from the Owner a room situated in the city of _________________, in the Province of ___, located at (address) ____ upon the following TERMS and CONDITIONS:

TERM: The term hereof shall commence on __________________ and continue month to month.

RENT: Rent shall be $__________ per month, payable in advance, upon the FIRST (1st) day of each calendar month to Owner at the address below, or such other places as may be designated by Owner from time to time. In the event rent is not paid within three days after due date including weekends and holidays, the Tenant agrees to pay a late charge of 10% of the overdue amount for each seven-day period (or portion of) it is deemed late. Tenant agrees further to pay $25.00 for each dishonoured or NSF payment.

UTILITIES: Tenant shall be responsible for the payment of all utilities and services.

USE: The premises shall be used as residence with no more than ______ adults and _____ children, and for no other purpose, without the prior written consent of the Owner.

PETS: No pets shall be brought into the premises without the prior written consent of the Owner.

SMOKING

Due to the known health risks of exposure to second-hand smoke and the damages that may be caused by growing marijuana or cannabis plants, increased risk of fire and increased maintenance costs;

a) No Tenant, resident, guest, invitee or visitor shall smoke a Marijuana or other tobacco cigarettes, cigars, electronic cigarette or any similar product whose use generates smoke or vapors within the building and the Leased Premises. This prohibition includes all residential units within the building, all balconies and patios, enclosed common areas, as well as outside within nine meters of doorways, operable windows and air intakes

b. "Smoking" shall include inhaling, exhaling, burning or carrying of any tobacco or electronic cigarette or similar product whose use generates smoke or vapor

c. No Tenant shall grow any Marijuana, Cannabis or similar plant in any part of the Leased Premises

LAWS & REGULATIONS: Tenant shall comply with all laws, regulations and requirements of all municipal, provincial and federal authorities now in force, or which may hereafter be in force, pertaining to the use of the premises.

ASSIGNMENT & SUBLETTING: Tenant shall not assign this agreement or sublet any portion of the premises without the prior written consent of the Owner, which may not be unreasonably withheld.

MAINTENANCE, REPAIRS OR ALTERATIONS: Tenant acknowledges that the premises are in good order and repair, unless otherwise indicated herein. Owner may at any time give Tenant a written inventory of furniture and furnishings on the premises and Tenant shall be deemed to have possession of all said furniture and furnishings in good condition and repair, unless he objects thereto in writing within 5 days after receipts of such inventory. Tenant shall water and maintain any surrounding grounds, including lawns and shrubbery, and keep the same clear or rubbish or weeds, if such grounds are a part of the premises and are exclusively for the use of the Tenant. Tenant shall, at his own expense, and at all times, maintain the premises in a clean and sanitary manner including all equipment, appliances, furniture, and furnishings therein, and shall surrender the same at termination hereof, in as good condition as received, normal wear and tear expected.

- Tenant may not paint, paper or otherwise redecorate or make alterations to the premises WITHOUT the prior written consent of the Owner

- All of these costs to be paid 100% by the Tenant

ENTRY & INSPECTION: Tenant shall permit Owner or Owner’s agents to enter the premises at reasonable times and upon reasonable notice for the purpose of inspecting the premises, showing the same to prospective tenants or purchasers, or for making necessary repairs.

INDEMNIFICATION: Owner shall not be liable for any damage or injury to Tenant, or any other person, or to any property, occurring on the premises, or any part thereof, or in common areas thereof, and Tenant agrees to hold Owner harmless from any claims for damages no matter how caused.

POSSESSION: If Owner is unable to deliver possession of the premises at the commencement hereof, Owner shall not be liable for any damage caused thereby, nor shall this agreement be voided or voidable, but Tenant shall not be liable for any rent until possession is delivered.

DEFAULT: The failure by Tenant to pay rent when due, or perform any term hereof, shall, at the option of the Owner, terminate all rights of Tenant hereunder. In the event that the Tenant shall be absent from the premises for a period of five consecutive days, while in default, Tenant shall at the option of the Owner, be deemed to have abandoned the premises and any property left of the premises shall be considered abandoned and may be disposed of by the Owner in any manner allowed by law. In the event that Owner reasonably believes that such abandoned property has no value, it may be discarded. All property on the premises is hereby subject to a lien in favour of Owner, for payment of all sums due hereunder, to the maximum extent allowed by law.

Recovery of the premises by Owner shall not relieve Tenant of any obligation hereunder, and Owner may let the premises to others upon such terms and conditions he deems proper, and recover from Tenant sums due hereunder, less any consideration received from others for the use of the premises, for the remaining term hereof, after paying expenses.

SECURITY: The security deposit set forth above, if any, shall secure the performance of Tenant's obligations hereunder; Owner may, but shall not be obligated to apply all or portions of said deposit on account of Tenant's obligations hereunder. Any balance remaining upon termination shall be returned to Tenant.

LEGAL FEES: In the event that Owner shall prevail in any legal action brought by either party to enforce the terms hereof or relating to the demised premises, Owner shall be entitled to all costs incurred in connection with such action, including legal fees of a solicitor and his own client basis.

WAIVER: No failure of Owner to enforce any term hereof shall be deemed a waiver, nor shall any acceptance of a partial payment of rent be deemed a waiver of Owner's right to the full amount thereof.

NOTICES: Any notice which either party may or is required to give, may be given by mailing the same postage prepaid, to Tenant at the premises or to Owner at the address shown below, or at such other places as may be designated by the parties from time to time.

HEIRS, ASSIGNS, & SUCCESSORS: This lease is binding upon and inures to the benefit of the heirs, assigns and successors in interest to the parties.

TIME: Time is of the essence in this agreement.

ACCEPTANCE – The undersigned Owner accepts the foregoing lease offer and acknowledges receipt of a copy hereof.

The undersigned Tenant hereby acknowledges receipt of a copy hereof and agrees with all the terms and conditions.

DATED: ___________________________________

___________________________________	___________________________________
Signature of Witness of Tenant	Signature of Tenant (____________________)
___________________________________	___________________________________
Address	Address
___________________________________	___________________________________
Phone	Phone
___________________________________	___________________________________
Signature of Witness of Owner	Signature of Owner (______________________)
___________________________________	___________________________________
Address	Address
___________________________________	___________________________________
Phone	Phone

Marketing Properties

Solid Oak Marketing: Small Ad Goldmines

Rental Ad Secrets

Excerpt from *Solid Oak Marketing for Real Estate Investors*

To many real estate investors, small on-line and off-line ads are the bread and butter of their business, not only for attracting renters, but also creating leads for many other purposes, such as attracting joint venture partners, realtors, vendors, buyers, and even contractors.

The good news is that these ads are relatively inexpensive, the not so good news is that because they are so inexpensive to place, many investors don't put that much of an effort into writing a good ad.

One day in Atlanta, I discussed these smaller ads with about a dozen senior level real estate investors and marketers. Each one of these investors was at the top of their game, creating substantial amounts of success in their business. The discussion started out first with my Solid Oak strategy for business success, and as we analyzed each of these people's businesses we found that every one of them had a minimum of six Solid Oak marketing legs holding up their business, and a few them had many more.

The other similarity was that they ALL used small ads as just one source of leads, but it was never the one they relied on the most. As the discussion continued on how to make these ads truly effective, we all came to the agreement that:

Small online and off-line ads are the toughest ads to write

Why? Because they need to stand out while being short, they need to be tightly written but include key sales tools, then need to envelope all aspects of a large ad (attention getting, emotional, benefit laden, with a call to action) in a small space with fewer formatting options.

When this reality sunk in, many uncovered that they spend more time writing these small ads and choosing the appropriate pictures to accompany them than they do on big display ads, business cards or flyers. When you create the ultimate small ad, it takes effort, thought, and a substantial amount of creativity to ensure that you answer all the critical questions your prospect has in their mind.

We concluded that real estate investors can never just write an ad under pressure or throw one together haphazardly. The good news is that, on the following pages you will discover some of the secrets we use to write masterful ads that pull even during difficult markets.

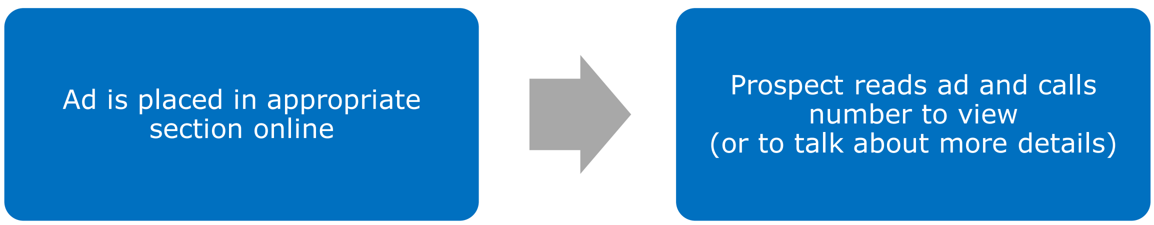
Fortunately, marketing is a science, and we have developed some winning formulas for you to use as you develop your own personal classified ad goldmine. This portion of the program will take the guesswork out of the equation and all you need to do is be creative with your specific details.

Two Stepping Your Way to Success

For all you country music fans, I apologize, the two stepping I'm discussing has nothing to do with dancing, it has everything to do with business success.

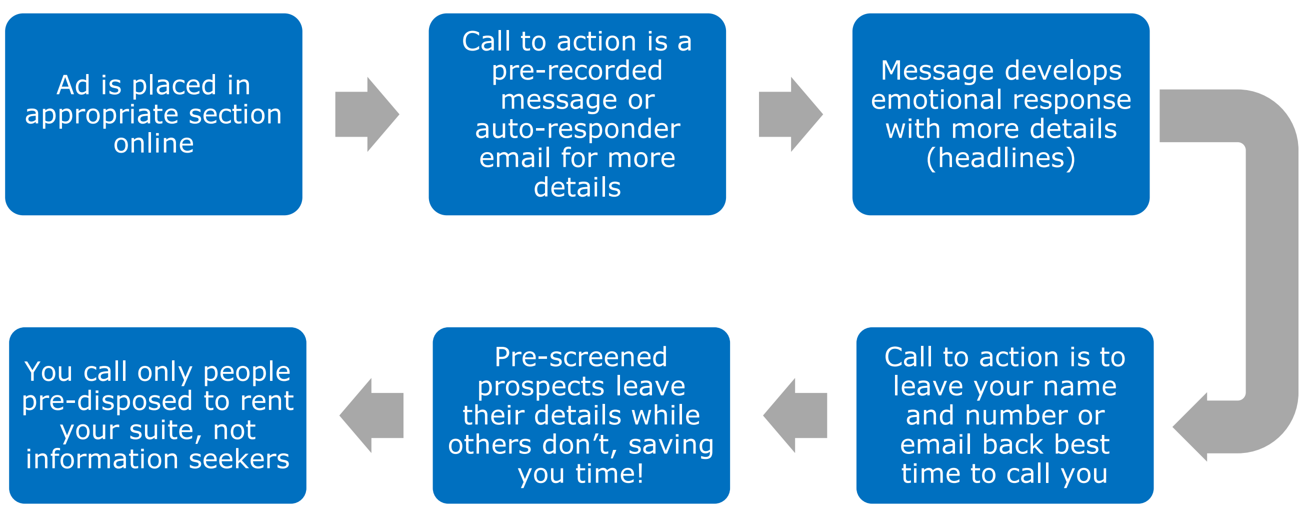
The classic model of an online or small ad is a one-step model. The ad is placed and the prospect (renter, buyer, vendor) picks up the phone and says, "I'm interested." There is one call to action in the one-step model. This model does work in some cases (attracting renters in a low vacancy market for instance), or in situations where you need to speak with them directly and immediately to close the sale. However, you will find, as a sophisticated investor, that a two-step model will give you better results with less wasted effort. In the two-step model there are two calls to action in the system, thus filtering out the people who aren't really interested.

Classic One-step Model (the most common way of using classified ads):



Solid Oak Two-Step Model

A two-step model is quite fascinating as it allows you to get a very detailed message to your prospects, with minimal cost. Here's how a typical two-step marketing strategy would work for attracting a renter:



Yes, in the two-step model you will find that you are taking fewer direct telephone calls. However, you will also find that the people you speak with are very interested in hearing what you have to say and are primed to see your suite. They will have received and viewed the additional pictures from your auto-responder. They will have heard why they will be happy to live in your suite versus other choices they may have. They will even hear any special offer you want to put on the table. If they don't want to talk to you that's perfect! If they do, they are pre-determined to move in already as they have pre-qualified themselves.

You may feel a bit uncomfortable at first, only talking with a small number of responses to your ad; however, if they step up and rent the suite (or whatever action it is you are advertising for) you must remember that you have just saved yourself a ton of time and time is money in this business. And always ensure you do your gross R.O.I. calculation!

As you progress through this process, you may add a third or fourth filter. Depending on what the purpose of your ad is, (attracting investors, vendors, buyers etc.) you may wish to consider putting in a special report as a part of your system, or how about a web-site? You can create your own funnel for each ad, testing the addition and subtraction of these components until you find the optimum results.

To help you understand the proven formulas to writing ads for real estate investors, I have included the text of an interview that Australian real estate expert Steve McKnight did with me when I was training his investor clients in Australia. In this interview, you will discover the step-by-step system that you will use to develop your own Small Ad Goldmines, each of which will provide a source of strength to your Solid Oak support called classified ads. You will want to read this next piece with a highlighter.

Remember to then read the enclosed tips from Carla Johnson regarding the best tips for creating quality rental market photos, as well as additional on-line advertising tips from expert Jason Leonard (both of which are included in this ACRE Program manual).

Marketing & Small Ad Goldmine Interview

with Don R. Campbell by Australia's leading real estate expert Steve McKnight

1. What makes your marketing methods so effective?

   Well, we only use strategies that we've proven with our own testing, and this has taken a lot of time and money to perfect. We've put our money where our mouth is! Marketing is not only an art form but also a detailed science. A science with proven formulas, unbreakable laws, and unquestionable truths. Once you crack this code it is like you never have to worry about renters, buyers, or motivated sellers again. The key is using these exercises and formulas to put your own signature on your ads.

2. Let's really get into it. My subscribers are all in real estate, what are your thoughts on the current advertising in that industry? What can your strategies do for them?

   I apologize up front to people in that industry, but I must be brutally honest. The real estate market is one of the worst when it comes to effective marketing. In fact, I would be totally embarrassed with 90% of the real estate marketing that's out there. Generally, it seems that the current marketing is either image based or based on "What's the least amount I can spend?" And this leads to what we call “the big so what” Which equals a huge waste of money for the advertiser.

3. What do you mean by “the big so what?"

   This is one of the strategies your subscribers are going to want to write down. Here's the deal: It's imperative that after you write your marketing piece, you go through it line by line. After you read each headline, sentence or paragraph ask yourself if your reader can say “so what” after it. If they can, get rid of it or re-write it.

Here's the reality of this strategy. Your marketing must be focused on them (your prospect) not yourself. What benefits are they going to receive from answering your ad. I'm sorry to say but your prospect doesn't care if you are a Million Dollar Club Member, they don't care that you are the salesman of the week, they don't even care whether your ad is new or old. All they care about is themselves. If you insist on putting in a lot of potential "so what" lines in any of your ads or marketing, you're going to lose their attention extremely fast! So, Strategy Number One for your subscribers is to read their current ads and ask the big question "so what!"

4. That's a great tip, so in the real estate industry you're saying that a lot of the ads are a big "so what". What does that do for my subscribers?

Well, because the marketing is so poor, and most people seem to be following a poor marketing strategy, your subscribers are in a fantastic position! In fact, it will be quite simple for your listeners to stand-out, even if they use only this one "snow what" strategy. Stand-out, get noticed, and be prepared to handle the calls professionally!

5. What do you recommend our subscribers do to get the best results?

Well, whether they're trying to rent or sell their investment property, the first and foremost thing subscribers should do is to look at their competitor's ads. Then the most effective thing they can do is the opposite of what everyone else is doing. Now, we should let your subscribers know that this point is the first key to effective marketing. To have effective ads, they must rise above the noise, they must make themselves stand out. I grant you, this is a simplified version of the strategy, but it is the foundation from which all the other strategies are built. In fact, this rise above the noise strategy is something we discuss on an ongoing basis because it's that important. Be brave, be bold, be heard is the motto to adopt.

6. Online and short ads are where most of my subscribers will be placing their real estate ads. Do you have specific strategies you'd recommend for this?

Definitely! In fact, because of size and other limitations, small ads are the toughest ads to make work. We have cracked the code on these as well and would be glad to share some of our proven strategies your readers can start using right now. There are four key elements to making your classified ads work effectively. Some of these elements go directly against so-called conventional wisdom. But all of our tests prove if you use only two or three of the elements then you'll only get 50% of the response you'd get if you used all four. So please be creative and use all four of the following key elements whenever possible!

7. Okay, let's get specific. Using a house for rent ad as an example, share with us your four key elements.

Gladly! Before we get started I must remind your subscribers to review the sites/pages on which they will be advertising and make note of how the ads feel and read (this is true for off-line ads as well). Take a quick look at the ads - no matter what city or town you're in invariably the ads all look the same … boring! Now you know exactly what not to do. So let's get right to what you need to do:

Rental ad key number one is your ad must, must, must have a good headline. Your headline is the ad for the ad. If you want people to read your ad give them a reason to!

8. Sometimes it is tough to be brave and stand out from the crowd. Some people tell me my ads sound funny, is this what you mean?

Yes! That's exactly what I mean. Remember, these ads are designed to grab attention, give a compelling reason to read the ad to the end, then get people to take a specific action. Boring doesn't do that. If you end up following the general public's (or website owner's) recommendations you'll get lost in a page of similar ads, and you end up looking like everyone else again and that will guarantee you poor results.

We've tested and found that there are four things you must have in your classified ad headline.

1. It must be written in bold but not all-caps (all caps is harder to read)
2. You must not use any abbreviations in the headline
3. You must stand out from other headlines in the section. In other words don't listen to the person taking your classified details.
4. Use one of these two types of proven classified ad headline styles:

   - First one is an eye-catcher headline.
     For example: "Must Rent. Going to Cuba" (everyone wants to read what that's all about!)
   - Second type of headline is a benefit headline.
     For example: "Finally, a Place to Call Home."
     This is very effective; most renters don't just want a suite they want a home. The people who don't want a home probably won't be great as renters. This headline is a good first filter to weed out the people you don't want. This one has fallen out of favour so now is the perfect time to revitalize it to stand out.

9. All right, now we've got the headline written, what's next?

As you read other ads, you'll notice that they are very short and stilted and in fact they often need some interpretation, even though the website allows unlimited characters. Just a sign of a lazy or uninformed landlord doing the least effort possible. Classified ad key number two is the ad must address the reader's needs (wants). What your subscriber's ad should do is make it easy on the reader. Here's how you can write these ads effectively:

- Become your target market. In this example, think back to when you were renting, what were you looking for in a home? Lots of storage, bright, clean, good location etc. Figure out what the reader wants and give it to them in words, pictures, and a story!
- Use sentences and adjectives. For example: "Bright & newly renovated 2 bedroom unit. Private, quiet, family-oriented" (use these types of words liberally). On some marketing platforms it may cost a little more with a longer ad that tells a story and makes the prospect want to live there but will actually rent at above market rent. A small investment to make a huge return.
- Write as if you're talking with one person not a group. Use the word "you" right in the ad. For example: "enjoy your private fenced back-yard", or "You'll love the huge walk-in closet". This will make them draw a picture in their mind with themselves in your property. This is the first stage for closing the sale. It also

makes it easier for them to sell it to their spouse or partner as they share your pictures and wording. Make it easy for them to decide!

- Remember the website has pre-screened your prospects. Unlike many other forms of advertising, small ads are very specific. You know, without question, that the readers are looking for a rental property in your specific area because that is the exact section in which they are looking. So, don’t waste precious words giving them these obvious details. If the property is under the North West Units/Condos for rent, there is no need to state N.W. unit in the ad. And you may not even need to put in an address if the area (in this example North-West) is small or descriptive enough. That's what I love about some web-sites, they filter my audience and all I have to do is give them what they're looking for! These readers have a burning desire for your product or they wouldn't be reading the section you placed your ad in.

10. Now that's a lot of info. When I started using those four steps they made a big difference in my ad response. What is your rental ad key number three?

Well number three is where we really step-outside the box. Rental ad key number three is make it as long as it needs to be. This step often sets some people's hair on end, because they've been taught that small ads must feel small. They say small ads are supposed to be short. Well through all our years of testing we have discovered that there is a definite false economy in keeping the ad as short as possible. In other words, it may be cheaper and quicker to write, but often it is money wasted. So make your ad stand-out! Make it as long as you need to tell your story from the reader's point of view.

But here's a critical point, make sure you write the ad tight, not short. Descriptive but not boring! And this is the toughest thing to do with these small ads. Make sure every word counts! Another important point is to use the ad to boast about the benefits of the property (not the features).

Use adjectives bright kitchen, private ensuite (this one is funny because who has ever heard of a non-private ensuite), pool, landscaped back-yard. Your goal is to draw a picture in their mind's eye of them enjoying living in your suite. Of course, great pictures help, but words solidify the reality. Your full ad experience is your one-shot sales presentation, always be clear and sell the sizzle, not the steak!

11. Now you said that you had four rental ad keys. What is the final point our readers need to pay attention to?

This is the hidden secret I've only ever previously shared with my REIN clients, so your readers are really getting a secret gem here. When I discovered this fourth key, it immediately increased the response to my classified ads by 40 to 50%! And I still don't see many people mastering this, which means your readers will have an immediate advantage over their competition.

The fourth classifird ad key is you must leave them with a feeling or emotion Now, talk about contrarian thinking. How many rental ads have you read that leave you feeling good? Not very many. And even those who attempt it do it poorly, which means you have another opportunity to stand out in the market!

How do we create this emotion? It really is quite an art, but here are the basic rules for renters or buyers. Remember, there are a few key emotions to focus on, they are: love, pride, fear, guilt, and greed (great for motivated vendors). I like to focus on the positive so my marketing always accentuates the positive aspects:

- Use words like home, comfort, enjoy, relax
- Create a picture in their mind of the area. Only blocks from parks and bike paths (if you can do a screen shot of a Google Map of the area making note of parks, schools, shopping etc. within walking distance). Add it to the pictures you have attached to your ad
- Create a picture in their mind of their new lifestyle: “Warm Days on Your Private Deck, Warm Nights by Your Fireplace”

The goal is to create a strong desire to live in this new lifestyle. So, target your description at the type of people who you want to rent to. Let them feel what it is like to live in your suite

12. Well, now our readers have everything they need to write killer classified ads, don't they?

There is one additional point your subscribers need to include in their ad and that is a call to action. Make it urgent that they call so they don't miss-out on this lifestyle. A good closing line goes something like “obviously won’t last long on the market with this lifestyle opportunity and at this price of $995, so call Bob today” or alternatively use an email address. Put in a person’s name to personalize it. Or to increase the response, use a pre-recorded message or auto-responder email that describes even more benefits. For example: “For more exciting details call the pre-recorded message (24 hours) at 555-1212”. These lines work all the time! Or send an email to bob@bobsproperty.com to receive a video of the property and even more details.

Sample Ad Templates

These samples are designed to give you ideas on how you can best write your own ads and create amazing results. It is important to remember that it is not the quantity of calls you receive, but the quality of the prospects who call. Too many investors get caught up in a numbers game, trying to maximize the number of calls they receive … the ultra-successful investors focus on writing ads that pre-filter callers to save time, energy, and money. Use below as templates and the exercise below to create your own masterpiece.

Attracting buyers for a current or future property

Stop Before You Sign Another Rent Cheque Free special report explains how you can make the jump from renter to home owner, even if you have poor credit. Call 555-1211 today for pre-recorded message	**Attention Renters** Discover how you can jump the hurdle from renting to home ownership. Pre-recorded message explains how to order your free special report call 24/hours 1-888-888-8888	**Stop Paying Rent** If you have always dreamed of owning your own home rather than paying rent for the rest of your life, now's the time. Call for your free special report. Pre–recorded message 1-800-000-8000
Rent-to-Own No qualifying, immediate occupancy. 3 bedroom, 2 bath immaculate home on private cul-de-sac with fenced yard. Only $955/month.Call Bob 555-1212	**No Qualifying** Owner Financing or rent-to-own. # nice homes to choose from. Free recorded list, call 555-1212 today	**Having Trouble Qualifying?** Beautiful 3 bedroom home available right now. No qualifying! Free recorded message gives details call 555-1212

Attracting Buyers for a current or future property

List a buyer's hot buttons. Remember, in this exercise we are attracting buyers that require assistance in their purchase.

List of hot buttons, their wants:	My buyer's list classified ad
1. ____________________	____________________
2. ____________________	____________________
3. ____________________	____________________
4. ____________________	____________________
5. ____________________	____________________

Attracting Motivated Vendors

Often these types of ads don't bring in a flood of telephone calls, but because they are so inexpensive, you don't need many calls to make the ads enormously profitable. These ads can be placed not just in the main newspapers but also the local, cheaper papers.

Here are some ideas; use the exercise below to develop your own.

Any Condition New company looking to buy houses in your area. Call Bob today @ 555-1212	**Consider it Sold!** I buy houses quickly with no hassles. Looking for two properties this month. Call Bob 555-1212	**No Commissions or Fees** We'll buy your house, not sell it for you. You choose when you want to sell, and we'll buy it from you. Call Bob 555- 1212

Attracting Motivated Vendors

Motivated Vendors are tougher to attract through classified ads; however, once you tap into the source, you will find a consistent list, and this will be one of your many Solid Oak support legs. Remember, we are attracting vendors who don't want to list and are motivated to sell today.

List of hot buttons -their wants:	My motivated seller classified ad
1. ______________________	______________________
2. ______________________	______________________
3. ______________________	______________________
4. ______________________	______________________
5. ______________________	______________________
6. ______________________	______________________
7. ______________________	______________________
8. ______________________	______________________
9. ______________________	______________________
10. ______________________	______________________

Attracting Renters

Many investors rely solely on their classified ads to attract renters. Well that can be a big mistake. Classified ads are a critical component but always ask, what else can I do? That extra 10%! The best results come from major broadsheet papers as well as the small town local papers. Run your ad to attract the types of people you want, use the ad as a filter. Less calls from qualified renters is what you're looking for.

Sleep with Me I'm a near new, fully serviced 3-bedroom, 2 bath apartment. I can be yours for only $798/month. Call 555-1212 for details on recorded message Free DVD Player Owner financing or rent-to-own. Number of nice homes to choose from. For a free recorded list call 555-1212 today!	**Finally, a Place to Call Home** Sit in the cool of your fully fenced back yard as you enjoy the sunset. Quiet, yet close to schools, shopping LRT. 3 bedrooms + den including private ensuite. Bright, clean, lots of storage. Only $740/month	**Free High-Speed Internet** Relax while your ceiling fan cools you off after a hard day's work. Newly renovated 2-bedroom suite feels like home when you walk in. Heat included with Free internet as a bonus. Only $980/month Call Bob @ 444-5585
Call Me First No question, this newly renovated 3-bedroom suite is perfect, so you don't have to read the rest of the boring ads. Close to everything you need. All for only $790/month Call Bob 555-1212	**Secret Agent Returning to Motherland** Comrade: due to crisis, I must rent the 1300 square foot top floor of my NW residence. 3bdrm, 2 bath, 5 appliances. Renovated to tastes of diplomats. Only $875. Must call by Friday. 555-1212	**$10,000 Lottery Bonus!** That's right, when you move into this suite you will receive a free lottery ticket for every week you live here, for as long as you want! When you win it's all yours to keep! Newly renovated 3 bedroom home available right now. Only $995. Call 555-1212

Attracting Renters for a vacant suite

List an equity building tenant's hot buttons. Remember, in this exercise, we are selecting only tenants that will increase the value of our property by treating it as if it was their home.

List of hot buttons - their wants:	My classified ad
1. ______________________________	________________________________
2. ______________________________	________________________________
3. ______________________________	________________________________
4. ______________________________	________________________________
5. ______________________________	________________________________
6. ______________________________	________________________________
7. ______________________________	________________________________

Top 10 Online Marketing Tips

Create winning ads that will make the phone ring!

It is estimated that over 80% of all tenants will use the internet when searching for a rental property. Use the following checklist to ensure you have created an advertisement that will entice renters to call you.

1. Use lots of photos
   It's not like print, use lots of photos to tell your story. Most websites allow you to post as many as you wish. Suggestions: select photos that will help a renter visualize your property. Show one or two exterior pictures, the kitchen and living room. Take photos of special features about your house such as hardwood floors, remodeled rooms, fireplace, etc. Make sure you check the frame before snapping the shots. Remove garbage, turn on all the lights, and watch out for reflection from flashes. You will receive more than three times the traffic if you have pictures in your advertisement and you will cut down dramatically on no shows, as your prospects will have an idea in advance of what to expect.

2. Do not use abbreviations
   There are usually no limitations as to how much text you can write on most websites, so go ahead and be descriptive. Use proper grammar and sentence structure. Tell a story and sell the sizzle!

3. Describe everything
   Many people using rental websites to find your place won't know the area. Describe the shops, parks, transportation, parking, and amenities in the area. When describing the property, use lots of descriptive words that will help the prospect paint a mental picture.

4. Sleep with me!
   Did that catch your attention? Use eye catching words and phrases when creating your headline. A renter is scanning potentially hundreds of listings. You have to stand out.

5. Be different in your pricing
   Try pricing such as $1,649, $1,801 or $777. When someone is searching through a lot of listings, they will begin to see price patterns on the screen. Your different number will break the pattern and become eye catching.

6. Check your contacts
   Make sure the name and phone number of your contact person is correct. Consider offering more than one phone number to call. Give renters the broadest range of hours to call you, as someone may be calling from a different time zone.

7. Use email
   With Internet marketing, many of your prospective renters will be contacting you outside your local area and will use email in their initial contact with you. Bonus tip: Get a toll-free phone number to put in your advertisement. Call your local phone provider and see how inexpensive this extremely effective tool can be. You will get up to 35% more calls than competing landlords if you offer tenants a toll-free number!

8. Show the listing address
   Don't frustrate renters by withholding the address. Many people like to drive by properties prior to calling. You will save yourself a lot a time if you help prospects pre-screen and this is another way of doing so. Also, most websites having a mapping feature that requires either a proper address or postal code to generate the map. By not putting in the address, you could disable this very handy feature that renters appreciate having.

9. Advertise early
   The further into the future you advertise, the better the prospects. With online advertising being so inexpensive, advertise your vacancy the same day it becomes available. Renters who sign their leases over one month before moving in stay more than twice as long on average than someone who signs their lease days before moving in.

10. Minimize the potential tenants' questions
    Think of all the questions you typically get from people who answer your newspaper ads. They ask them because you can only say so much in a newspaper ad. Online, that's not the case. Here are some typical questions that can be answered before the prospect calls you, saving you time and making it easier for you to book the appointment:

- What's included in the rent?
- How many bathrooms are there?
- How big are the rooms?
- How big is the yard or is there a playground?
- Are pets ok?
- Where's the nearest public school?
- Is there parking?

Bonus Tip

If you are paying for the advertisement, find out how many people are using the site. Also, determine how many listings they have for your area, how well the ads are presented, and what you can do to your advertisement to make it stand out. Additionally, it never hurts to ask for a free trial. In many cases you can get one just by asking. This not only saves you money in the short term but can be your best indicator of future success on that website!

Jason Leonard is the Director of Business Development at Landlord Web Solutions

Top 7 Magnetic Marketing Photo Tips for Investors

Tip #1 - All Lights On

- Always use your flash
- Turn on all lights:
    - Lamps and pot lights
    - Stove lights and kitchen counter lights
- Open curtains and blinds
- Take photos on sunny days if possible

Tip #2 - Wide Angle Lens

- Capture three walls, not just two
- Gives feel for whole room
- Get the viewer to say:
    - "I can see myself living here"
- Digital SLR camera with 18 mm lens

Tip #3 - Tidy

- Clean up
- Make sure everything is neat and tidy
- Hide extra cushions and afghans
- Clean off counters
- Remove excessive personal objects


Tip #4 - Create a path

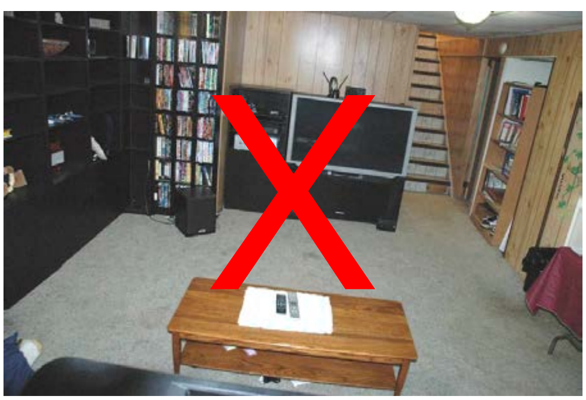
- Create a path through the room
- Draw the viewer into the room
- Let them see themselves in the room
- Imagine moving through the room
- Avoid horizontal lines
- Don’t shoot the back of a couch


Tip #5 - Raised point of view

- Take photos from higher than the average eye
    - The viewer can look down on the room
    - Gives them a sense of control
- Puts them in charge of the room
- It becomes their room

Tip #6 - More floor, less ceiling

Tip #7 - Make it level



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