

WHAT WE HAVE LEARNED IN REAL ESTATE
INVESTING IN THE PAST TWO YEARS

Brad McLeod
Jennifer Minge

Laying the Foundation

1. Get educated on purchasing real estate whether you want to do flips or long-term rentals. This industry can be brutal to people who do not know what they are doing and it is easy for a new investor to lose their shirts and thousands of dollars by making mistakes.
 - Jennifer attended both the John Adams Investor Institute and the GAREIA Boot camp. I would recommend the GAREIA boot camp. You can attend any other real estate guru's boot camp.
 - Read about real estate investing. There are many excellent books on the subject. Our personal recommendations are: (not limited to just real estate)
 - a. Flipping Properties - Bill Bronchick
 - b. Rich Dad/Poor Dad – Robert Kiyosaki
 - c. Make Millions by Buying Small Apartment Properties In your Spare Time – Brian Friedman
 - d. Investing in Duplex, Triplexes & Quads – Larry Loftis
 - e. The complete Guide to Buying and Selling Apartment Buildings – Steve Berge
 - f. Apartment House Riches course – Dave Lindahl
 - g. Secrets of the Millionaire Mind – T. Harv Eker
 - h. The Maui Millionaires – David Finkel & Diane Kennedy
 - i. Goldmine of Brilliant Tax Strategies – Albert Aiello
 - j. 2 Years to a Million in Real Estate – Matthew Martinez
 - Take advantage of the subgroups offered at GAREIA. I got started in real estate investing with the help of an agent that taught at the GAREIA boot camp.
2. Find a Partner. Both Brad and I had invested in real estate before we decided to join forces. Our investing really jump started once we became partners. We recommend that you partner with someone that has skill sets different from your own so you can compliment each other. Besides if one partner is on vacation or traveling for work, then the other partner can step in to take care of any necessary items.
3. Know your credit score and your debt-to-income ratios to determine if you would qualify for an investment mortgage. If you cannot qualify for a mortgage then you will have to use creative financing to purchase properties. You should know about creative financing from your education that you accomplished in step 1.

4. Establish a business identity.
 - FIRST determine what the name will be of your company then check that that name is not in use by another company in the state of Georgia. I would even go so far as to verify that the website name of our company is also available. We did not pick a company name until we found one that was not registered in the state of Georgia and that we could reserve the domain name.
 - Create business cards. Vistaprint is dirt cheap in printing costs.
 - Create a business logo.
 - Create and print letterhead.
 - We used the website www.sitepoint.com to create a contest to create a business identity for our company which included a logo, business cards and letterhead. The contest cost \$350 and we had over 30 entries from which to choose. Later we used that same website to run a contest to create our CD labels, inserts and spine labels.

5. Incorporate
 - If nothing else do this for asset protection.
 - The main reason for incorporating is to build your business credit.
 - Minimize or eliminate the risk of an IRS audit. A Schedule E (or C) form is audited more than a Partnership return under form 1065.
 - Make sure you use the correct business entity depending on whether or not you are doing flips or long-term holds. If you are doing both then you will need to have 2 separate business entities.
 - You can either hire an attorney to incorporate yourself for about \$500, do it online on the internet for about \$150 or you can do it yourself for about \$60.
 - Create your Articles of Incorporation

6. Establish a business checking account
 - Do not think of co-mingling your personal funds with your business funds. If you don't understand why then have your tax accountant explain it to you.

7. Establish a tax-id
 1. If you use an attorney to incorporate then they will do this for you. If you do it yourself then you can file out a form and fax it to the IRS.

Getting Started

1. Know your outcome.
 - Spend some time writing down what you want to accomplish with your real estate investing. Be specific and include timeframes for your goal. Your goals have to be realistic and measurable.
 - If you don't know your outcome then how will you need what to do or in which direction you need to go.
 - Write a business plan that details your goals.
 - Constantly revise your business plans as circumstances change or the ability to achieve your goals change.
 - i. When we started we wrote a ten year business plan that we spent approximately 3 months writing. Our goal was to purchase 12 quads in 10 years. At the end of 10 years, we would sell 6 of quads. We would take the profits from the sale of those 6 quads and pay off the mortgage on the remaining 6 quads. Brad would get 3 quads and I would get 3 quads. We would then be able to retire and be out of the rat race.
 - What you focus on your will achieve. If you have clearly defined goals then you will accomplish more in your real estate investing since you are focused on your ultimate outcome.
2. Have a positive attitude
 - Expect to make mistakes. Fall forward when you make a mistake by treating each mistake as a learning experience.
 - i. We have had a tenant commit suicide
 - ii. We have had a tenant that killed a man and is in jail for life
 - iii. We have had contractors run off with thousands of dollars without every performing the work.
 - iv. We have had tenants move-out in the middle of the night.
 - v. We have lost ten thousand dollars in earnest money when we could not close a loan on time.
 - Teamwork helps in this category since you can help each other out and you will always have a second opinion on how to accomplish something. If something goes wrong, then the two of you can brainstorm on how to recover.
3. Have a realistic picture of your abilities

- Know each partners strengths and weaknesses. Who handles the bank account, who handles repairs, who handles estimating repairs on purchasing a new building, who handles the legal areas, who deals with problem tenants, who communicates with potential sellers. If neither of you don't have the necessary skills then outsource this to someone who does.
- Delegate responsibility among partners

4. Communication

- You and your partner **MUST** communicate on our regular basis. Brad and I probably will send 3-4 emails to each daily, talk 2-3 times daily, and/or text message each other at least once daily.
- Tenants will attempt to play you off on each other. If you are communicating on a regular basis then they will learn very quickly this will not work.

Building Your Team

1. Real estate agent.
 - This person will be responsible for submitting your offers on properties. It is best to have an agent that is familiar with your target market so they can provide you with inside information on the properties.
 - If the agent also invests in real estate then that is better.
 - A good agent will be able to bring you potential deals for you to evaluate.
 - Don't attempt to reduce your costs by short-changing your agent on their commissions. You will get a reputation among agents and this will hurt you in the long run.

2. Tax Accountant
 - A tax accountant that also invests in real estate is a goldmine.
 - If your accountant does not understand componentizing costs for depreciation then find another accountant.
 - You should be doing a mid-year review with your accountant where he can inform you of any changes to the tax law and make any mid-year course corrections as necessary

3. Bookkeeping/Accounting Software
 - If you are not using a software program to track you real estate, then you should choose another investment mechanism.
 - Make sure the software program that you are using is supported by your Tax Accountant. Ever want to re-key a year's worth of data just to get your tax return prepared?

4. Contractors
 - You will need multiple ones even if you only have one property.
 - Find a dependable HVAC person.
 - Find a dependable electrical person.
 - Find a dependable plumber.

5. Attorney
 - You will need a real estate attorney that will handle the closing on your properties. Any real estate attorney will be able to fulfill this role. Make sure they can do a title search or they have a company they work with to do the title search for them.

- If you plan on converting your properties into a Land Trust make sure that your attorney understands how to do this. You will be amazed at how many real estate attorneys will not know how to do this.
- Above all have an attorney that knows tenant-landlord law. Keep this attorney on retainer. For our attorney we are able to email him with questions and we get a bill in the mail.

Define your target market

1. Will you focus on flips or long-term rentals?
2. Will you focus on single family, multi-family or commercial?
3. What area of town will you purchase properties? For God's sake make sure this location is within a reasonable driving distance from your house and work.
4. Spend time knowing the average selling price of properties in your target area.
5. Start writing property owners in your target market. They may not respond at first but over time when they are ready to sell, their first call may be to you.
 - All of our quad apartment buildings are within a 3 street radius of each other.
 - There are 90 quads in our target area. We have written and/or talked to 83 of the landlords.
 - Every Monday evening we get together to work on our real estate. During this time we are writing or calling property owners.
 - 4 of our 5 quad purchases were from communicating with the current landlord.
 - Use a database to track landlords that you have contacted and when. Write landlords at least twice a year. We try to write them once a quarter.
6. Take advantage of CompuSearch which is included with your GAREIA membership.
7. Create an account with GSCCCA. This is the Georgia State Clerk of Courts Cooperative Association. www.gsccca.org. Membership is only \$10 per month. It provides you with online access to every document filed in every courthouse in every county in the state of Georgia. You can only do searches by name so use your CompuSearch account to get the owner of any property. Once you have their name then you can search for every property they have in the state of Georgia. This will tell you if they have a 1st and 2nd mortgage on their property, is their loan an ARM or not, is their loan assumable, date they purchased the property and the price.

Finding Tenants/Tenant Placement/Inheriting Tenants

1. Have a rock solid application process.
 - Every adult applicant must fill out an application form. *We use the application form from the www.MrLandlord.com website.*
 - Charge an application fee for every adult applicant. *We charge \$20.*
 - Verify every number for work and emergency contacts.
 - Run a credit check on every adult applicant. *We use the credit check and dispossessory check offered on the www.MrLandlord.com website which allows us to run a check online and get instant results.*
 - Verify employment for every adult applicant. (If you end up suing tenant for outstanding monies, you can garnish their wages so you need to know where they work.)
 - Make sure you have the make, model and tag number of all cars driven by tenants. (If you end up suing tenant for outstanding monies owed, you can file a claim against their personal property.)
 - Verify the social security number given for every adult applicant by either getting a copy of their social security card or verifying it on your credit check.
 - Perform a dispossessory check on all adult applicants.
 - Google your tenant's name and see if you find anything.
2. Make sure every tenant completes a Move-in/Move-out inspection form. *Our Move-in/Move-out inspection form is included on the CD.*
 - You may be required to prove damages that you charge a tenant against their security deposit. This form will help to substantiate your list of damages.
3. Take pictures of your property prior to the tenant moving in. And then take pictures within 3 days after your tenant moves out. Better yet take the move-in pictures while the tenant is doing their Move-in/Move-out inspection report and make sure you include the tenant in one or more of the picture. If you take the pictures before hand, have color copies printed out and have the tenant sign the bottom of each page to verify the validity of the picture.
 - You may be required to prove damages that you charge a tenant against their security deposit. These pictures will help to substantiate your list of damages.

4. If you are buying a property make sure you verify all leases with the tenants. Do not rely on the Seller to fill out your due-diligence form. *Our tenant verification form is included on the CD.*
5. Establish a Landlord Agreement with Georgia Power. This will provide continuous service without you having to pay a \$20 connect fee every time a tenant moves out. The only time you are required to pay the \$20 connect fee is if the tenant has service disconnected for non-payment and you want to have it reestablished in your name. When a tenant moves out, the service automatically converts to your name and you don't have to lose any time waiting for service to be connected. *The Georgia Power Landlord Agreement form is included on the CD.*
6. At Move-in provide tenant with list of all utilities and contact numbers for the suppliers. Give a disconnect date to give them time to convert service into their name. If on the supplied date, disconnect all utilities that are still in your name. You are not paying for their utilities. We give our tenants one week from move-in date. *Our utility form is included on the CD.*
7. If your property was built before 1978, you are required by law to give all tenants a lead based paint brochure from the government and have them sign a disclosure agreement. Even though our properties do not meet this requirement, we provide this information to all of our tenants and have them sign the disclosure form. *The lead based paint brochure for rentals and disclosure form is included on the CD.*
8. Get to know the dispossessory law and be able to recite if anybody asks. When we started buying properties, Jennifer would always make a trek to the Gwinnett County courthouse to file our dispossessory forms, file requests for writs, attend court, schedule date for sheriff to perform eviction, and to request default judgments. Over time we learned that we could have the forms notarized and then mailed in with the appropriate payment. Then later we found a company that we could file for dispossessory online and they would have a courier that went to the courthouse and file the paperwork for us. This company would also file for our writ and schedule the sheriff for evictions.
9. Establish an escrow account as mandated by law. If you have more than 10 rental units you must have an escrow account. If someone else actively manages your properties then you must have an escrow account regardless of the number of properties that you own.

INCLUDED ON THE CD

Main Folder

- PowerPoint Investor Presentation
- Investor Presentation in .pdf format
- Analysis of quad purchase spreadsheet
- Depreciation spreadsheet
- This document
- PowerPoint presentation How We Got Here

Tenant Folder:

- Application Form
- Verification of Employment Form
- Standard Rental Agreement
- Utility Information
- Emergency Contact Information Form
- Tenant Verification Form
- Protect Yourself from Lead Based Paint Brochure
- Lead Based Paint Disclosure
- Georgia Power Landlord Agreement
- Our Rent Flyer

Purchase Folder

- Property Ratios Evaluations spreadsheet
- Apartment Analysis Form
- Due Diligence Checklist
- Due Diligent Letter

Pictures of Property Folder

- Pictures of our 5 quad apartment buildings