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The Investors Toolkit

The real estate investing tools you need to identify deals, maximize cash flow, and achieve your goals

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Hello and welcome

Hello and welcome! Congratulations on taking these steps to building real wealth through real estate. In this kit, you will find the essential tools you need to earn Cash Flow for Life through rental properties.

Maybe you're renting your home now. Maybe you own a house and want to turn it into an income suite. Maybe you have rental properties and want to buy more. No matter what level you are at now, these tools will help you rocket to the next level, so you earn more Cash Flow for Life.

This toolkit is a quick guide to jumpstart your real estate investing career and even business. It's filled with practical, proven tools for finding the right rental properties, analyzing the numbers, finding tenants and earning cash flow – even before you buy. You can use these tools everyday, on the go, so you profit from the start.

These are tools for beginners to advanced investors. If you were a carpenter, would you go to your job without a hammer, tape measure, or level? No. No matter if you are just starting out or have decades of carpentry experience, you will always need tools. This is a tool kit for real estate investors that you won't find anywhere else. We have learned from the best and made them better – to give you the best set of landlording and investing tools on the market now.

You will also hear stories from others who have profited from these tools. No matter what your level, their stories will inspire and motivate you. It's never too early to start, or too late to make money. This is a program for life – to earn Cash Flow for Life.

Who are the Cash Flow for Life experts?

We are Scott McGillivray and Michael Sarracini and we weren't always Cash Flow for Life experts. In fact, we started as just the opposite – a couple of broke university students who knew nothing about real estate. As perpetual tenants, we realized that we were throwing our money away on rent, but didn't know what to do about it.

We met in business class, but we didn't interact or hang out with the same crowd. You could even say we didn't get along at all. Because of our very similar personalities, we tended to clash during class seminars and debates, and would never work in the same group.

One day, a smart professor decided to pair up students for the next project. Of course, who did he pair up? The two of us.

Acting professionally, we set our differences aside and teamed up to achieve an unspoken common goal: to be the best. As we began to share ideas and experiences, we noticed that our brainstorming sessions were very productive and even enlightening. Since we both lived in student rentals, we settled on a business model that centered on owning and operating student rentals. The project was a success!

Student tenants

Shortly after, we ended up moving into a house with five people. We also got jobs as waiters at a nearby restaurant, where we met many community businesspeople and professionals. One day, while collecting rent from housemates to pay the landlord, we plugged the numbers into our business model from the project.

We realized that our landlord not only covered his mortgage with our rent money, but had $500 left over every month. That's when the light bulbs in our heads went on. We found what if we bought a house close by, we would be the

ones making an extra $500 each month. In fact, if we bought more than one house, we could make $500 every month for every house, and quit our jobs.

Of course, it was not that cut and dry, but we were on to something. We combined and utilized all our resources, talked to every real estate agent we knew from the restaurant.(It seems that real estate agents go out for lunch more than any other profession, so we knew many.) We quickly found one who was willing to help us get started. The task of buying a $200,000 property was daunting to say the least, especially considering we had no money and loads of student debt. The price of a house was a lot of money at the time.

Our first property

We looked at many houses, and at every house we looked at, we learned something new. By the fifteenth or so house, we became extremely confident as to what value was in the neighborhood. Since we were students, we also were aware of what students wanted in a rental. We simply put the two together to find a great property.

Next, we used our business model from our university project to establish profitability and return on investment for that property. Everything looked good and the numbers made sense, so we took the plunge. Against the advice of our friends and parents, we bought the property.

We posted the property for rent with a few different wordings, in a few different places. We quickly learned what to write and where to post listings to attract good tenants. Next, we set up a time to view the property and had all of our interested potential tenants come at the same time.

Student landlords

When we arrived at the house to show it, there were already four groups of five waiting there for us. Over the next 15 minutes, another seven groups arrived. It was overwhelming, and we have since learned how to stagger

showings to multiple groups.

We eventually got through the day and showed the 11 groups. Out of the 11 that came through, eight of them wanted it. We were happy that we rented so quickly, but were disappointed that we didn't have a piece of the underserviced market. If we had seven more houses, they would all be full.

Second property

We looked at another property on the next street a few days later. We called back the seven groups we turned down to tell them that we had a similar property for them to see. Following the same process of showing the first house, we quickly rented the second house – before we even bought it.

Buying two houses in the first year seemed very ambitious, and it was. But we knew our goal –to make more money managing rental houses than we did at our part-time jobs. We stuck to our guns to achieve that goal. We managed to qualify for a second loan and buy that second property.

Over the next few years, we went on to buy many homes and rented them out. It's amazing how easy it became to find and rent a property as we worked through our cookie cutter approach, always tweaking the process slightly each time till we perfected it.

Creating a System

By keeping an investing journal, we documented every tweak, change and lesson learned over the years. If we came across a problem or situation a second time, we would simply review how we handled it the first time and applied that process to the new situation.

Eventually, our journal became so big we realized that it was a book! When we started, we never thought we would collect so much information in such detail about earning Cash Flow for Life. We spent much of our spare time

revising and polishing our book, our system. We had many family, friends, and friends of friends asking us how to properly invest in rental properties. Nearly every weekend for a few years, we helped someone look at a property, renovate an income property, or manage tenants.

That's how we became teachers. It began with a few students. As word-of-mouth spread, a few students turned into many. Before we knew it, we were educating all kinds of people from all walks of life through seminars, workshops, and the television show – "Income Property."

Many people wanted to earn Cash Flow for Life, but few knew how. We filled that gap. Our training program and workbooks, "Cash Flow for Life," is a collection of our knowledge and experience gained throughout the years. It is the exact system we used to reach the level of success we enjoy today. Many of our students have achieved great success, going on to run full-time real estate businesses.

We ourselves have taken many real estate courses. We can honestly say that "Cash Flow for Life" is the only course that leads students through every step of real estate investing, from starving students to multimillionaire landlords. It is a system proven to work.

The Cash Flow for Life Investors' Toolkit offers core tools from our system, as well as a few more. Rather than the entire workshop of tools we offer in our training courses, you are getting the portable toolbox here. Just grab and go.

The most important tool in real estate

The most important tool in real estate investing is something you don't find in any other investing arena.

In the stock market, you pay 100 percent of your own money for 100 percent of the stocks you own. In the precious metals market, you pay 100 percent of spot price for your gold and hope that prices rise. However, in real estate, you have to put down only 5 percent, 10 percent, or 20 percent of your money to own 100 percent of a property. The rest is borrowed from the bank or lending institution. When you sell that property, you make returns on the full amount you borrowed and your returns are multiplied.

This is called leverage: using other people's money to make more of your own money. Leverage is the most powerful tool in real estate.

Let's take a look at a simple example using round numbers. You purchase a property that costs $100,000, and you put down 10 percent, which is $10,000. You borrow the remaining amount of $90,000 from the bank. The property's value then goes up to $120,000, and you decide to sell. You've made $20,000 profit by investing only $10,000 of your own money. You've doubled your money and made a 100 percent return on your money.

When you rent, you don't enjoy leverage; when you own a home, you do. If you are a tenant, you are very familiar with the frustration of giving your landlord money every month and never getting any of it back. It's totally gone. As a tenant, Michael reached a point where he said, "Enough is enough. I don't want to give away any more money. I have to do something." If you are a tenant, owning your home is the first step to building wealth in real estate.

You probably realize that home prices go up every year that you wait to buy a home. That house you looked at last year and thought about buying is probably worth thousands of dollars more today, and will be worth thousands more tomorrow. You are getting behind every year, and it becomes harder

and harder to catch up. Even when prices decline, such as in high foreclosure markets, the long-term trend is upward. Prices will continue to climb over time.

When you own your home, you pay down your mortgage loan every month. You also enjoy market growth on the full value of the asset, regardless of how much of it you own. You can put $30,000 down on a property worth $300,000 and you will see market returns on $300,000! That's leverage.

Leverage is what sets real estate apart from any and every other investment.

If you own your home, you are already a step ahead. You are familiar with purchasing property. You will move from general familiarity with purchasing properties to ease and comfort handling property transactions.

Your next step is to own and manage a rental property, and your goal is to learn how to evaluate and manage rental properties. You're going to use leverage to buy your next properties. If high risk isn't your cup of tea, you've come to the right place. We don't like risk either. With any investment, you have an element of risk—that's just the way it is—but you will reduce your risk considerably if you educate yourself properly and learn to leverage. By using the tools in this kit, as well as our experience, you will leverage money to jumpstart your career.

If you want to experience being a successful landlord for the first time but want to reduce your risk as much as possible, we recommend considering an income suite in your home. Your risk of losing money is lowest with an income suite because you have already invested in your own home. A second property brings a second mortgage and a second set of expenses, but a suite in your home will generate income with little additional expense. That's how you leverage investment in your own home.

As you build a business with rental properties, you will continue to leverage. Even when you have the money, you want to leverage other people's money to buy more properties. You also learn to leverage other people's time so they manage and maintain those properties for you. Ultimately, you leverage systems to run your business automatically, so you have free time and money to pursue your other life goals. That's the power of leverage!

The 5 things you MUST do before buying a rental property

The moment you've been waiting for is here: you're ready to buy a rental property. It's critical to buy the right one, but how do you know what to buy? Consider these five things you must do before buying a rental property.

1. Drive the neighborhood

If you're investing in your hometown, the first property you buy should be on your way home from work. The next couple of properties should be within a 15-minute drive from your house. Why? For two reasons.

First, you are close by in case you have to respond to a problem, pick up rent money, or show the property to a potential renter.

Second, you know your neighbourhood best! You are a local expert in your area. This means that you have an idea what houses are selling for, you know which amenities are nearby, and you know how to get around.

Driving the neighbourhood is always a good idea before you purchase any investment property. Within about 20 minutes of driving, you will gain valuable demographic information about the neighbourhood. A short drive will tell you things like the local income level, vacancy rates, property use mix—whether it is residential, commercial, or industrial—and any upcoming infrastructure improvements, just to name a few.

If you are investing in a property that's not close to where you live, be sure to leverage your network by asking someone to drive the neighbourhood on your behalf.

2. Get a home inspection

Even if you are a handy person or a professional contractor, a home inspection is always recommended especially for your first few properties. Not only will

a trained home inspector know where to look for common problems and how to solve them, a home inspection will give you peace of mind that your investment is safe. An inspection may even get you better financing rates and insurance rates. It is accepted throughout the industry that banks, lending institutions, and insurance agencies require professional inspections before lending on any commercial and multi-unit properties.

Tip: Follow and watch your home inspector closely when he inspects a property, and ask many questions. You will quickly learn what is important to consider when buying an investment property. You can then look for the same things when you walk through a property you are considering buying in the future and better evaluate the quality of the property.

3. Do a property background check

Get to know the property and the properties on the street/neighbourhood before you buy. You want to answer questions like: When was the last time this property was sold and for how much? What is the average sale price for properties on this street? Is this property more expensive or less expensive than other properties on the street?

To find out this valuable information, you don't have to do any of the work! That's right. You can get someone to do all the research for you, for free. Who is that person? Your real estate agent, of course! Remember, they want you to buy the property and will offer their resources whenever possible to make a deal happen. Leverage their resources whenever you can.

4. Post it for rent

How do you know what the property will rent for? No time for guessing in our world. We want to know almost exactly how much rent the property will generate before we consider buying it. One of the best ways to do this is to post the property for rent before you buy it. You can judge the demand for that property by the number of calls you get at the price you've posted.

Too many calls? The price is too low and/or demand is very high. No calls? Well, you may have overestimated the potential rent. Try marginally lowering the price until you have a reasonable balance. You will have to know what the property will rent for before you can do an effective cash flow analysis. We show you how this analysis works later in this toolkit.

5. Rent it!

This is the best way to have zero risk. Rent out the property before you buy it! It's quite simple. Show the property to potential tenants and if someone agrees to rent it, you buy it! You can even have the tenant sign a lease, contingent upon closing, and show it to the lender to qualify for the loan. Just make sure the property passes the 4 Laws of CALC we teach you later on.

Top 10 TIPS: Home into income property

Whether it's a 100-year-old Victorian home, a multi-apartment property or a fully renovated unit in a hip urban area, you can turn a home into an income property. Here are 10 tips to do that.

1. Make sure it's worth it

The cost of renovations must be able to pay itself back within two to four years rent. Scout out local markets, get professional opinions, and establish market rental rates in your area. Also, make sure you work with a reputable contractor who signs a contract with you and insists on getting the appropriate permits.

2. Tag team, if you can

To use a cliché, two heads are better than one, and property investing is no exception. Getting to your desired final product is a journey, and having a teammate to share frustrations, anxieties, and costs is invaluable.

3. The best way to learn is to go through the experience

As one of our students once said, "You can read as many books as you want, but you have to experience it." Every home is unique, and every home will reveal its own problems and potential solutions.

4. Whatever you budget, add 25 per cent

When renovating your space, despite what a professionally quoted budget says, add 25 per cent, just in case. If you don't go over, nothing lost. But if you do, at least you were expecting it.

5. Houses are like onions

The more layers you peel back, especially while demolishing, the more

problems you're going to find. Count on hidden gems like mould, live wires and any other hidden costs, just in case.

6. Consider all the options

If you have a three-story plus basement house, why just rent out only the basement? Doubling the space not only allows you to live mortgage-free by increasing the rent but also increases the value of the home. However, this may not be the best option for you, especially if you plan on expanding your family or want access to your backyard.

7. Make sure the space is livable

If the kitchen has zero counter space and the bedroom can fit only a bed, you may find it difficult to attract ideal tenants for your unit.

8. Don't skimp on the drywall, especially on the ceiling

Sufficient drywall, especially on the ceilings, acts as both a fire barrier and soundproofing between you and your new housemates.

9. Start on the outside

A separate entrance is key when renting out a basement, especially if you don't want to mingle too much with your new lessees. And make sure there are no potential lawsuits hanging around, such as slippery stairs or rotting wood.

10. Don't turn your house into a home… right away

If a long-term investment is what you seek, turning your property into your home right off the bat isn't going to help pay those accumulating bills. Your first priority is to turn your house into an income source or at least a manageable entity.

Using the tools: Homeless to landlord in two years

Several years ago, Michael's friend James moved across the country for a good job. He was there for a couple of years, but then he lost his job and moved back to his hometown.

Upon his return, James and Michael met up for coffee, and James told Michael that as a result of his move, he had no money and nowhere to live. He was staying with his mother.

"I don't know what to do," James said.

They had a quick conversation about James's ultimate goal: buying a place.

Michael, wanting to help, said, "Can you make a commitment to work with me? Can you make a commitment to just do what I say? We'll get you a home within 60 days."

James was skeptical but was willing to trust Michael. He soon found a job and began saving his money. It wasn't as good as the job that he had before, but it was something.

They started looking at properties and after 60 days, they found what Michael considered a great property. It was a house with four bedrooms upstairs and a one-bedroom apartment downstairs.

"This is perfect," Michael said. "You can rent out the upstairs and live downstairs. It's not the ideal situation to be living in a basement apartment, but it's a great starting point."

James agreed that it was a good prospect, but said: "How am I going to buy this property? I just got a new job and have very little money." He had $5,000 in savings.

"Well," Michael said, "if we put 5 percent down on this property, it will

cost you about $10,000. You have half of that saved up. Let's find the other $5,000, so we can make an offer."

James ended up leveraging some of his credit cards. This is not a good idea for everyone, but in this situation, it was the difference between owning not owning a place. They then calculated the market rate for the rent upstairs and found a tenant.

James borrowed $3,500 on his credit cards and got another $3,000 from the tenant, who paid first and last month's rent upfront. Between those resources, James was able to cover the down payment cost.

With this strategy, James bought a property, lived there rent-free, and paid off his credit cards in four months.

After a year, James decided to upgrade his primary residence. He bought a house with a two-bedroom apartment downstairs and a three-bedroom upstairs. He moved in upstairs, found a tenant for the downstairs, and rented out the basement apartment at his first property. All the rent coming in completely covered the mortgage payments on both houses.

James started with nothing and worked from the bottom up. Now he has the house he always wanted and is considering buying more properties.

The 4 Laws of CALC©

Before we even visit a property, we run the numbers. Creating wealth through real estate is all about using your head and letting your emotions take a back seat. You have to calculate all aspects of the property. To make things a little simpler, lets take the word calculate and shorten it to CALC.

CALC is a four step process you should go through every time you consider buying an investment property. It is your first line of defense, a process you can do from your home before you even physically see the property!

The CALC evaluates the property based on four indicators: Cash flow, Affordability, Location potential and Cash-on-cash return. These four indicators satisfy the need to evaluate the property on both a microeconomic level (cash flow, cash-on-cash return) and on a macroeconomic level (affordability and location potential).

We have provided some in-depth examples of the CALC at work below. These are real properties in real cities near you.

The Law of Cash Flow

A good rental property is not easy to find. There are many variables to consider, but the most important criteria is that it generates positive cash flow. This is the basic formula:

Income - Expenses = CASH FLOW

INCOME

Income is the estimated gross revenue generated by renting the property. We say estimated because you never really know what the property will rent for until you buy it and actually rent it. It is very important to have an accurate estimated rental income before you buy, and fortunately there are methods to accomplish this.

The most common method is to run comparables in the area. Just like an appraiser establishing the market value of a property, you will research similar properties nearby and find out what the rent is. A comparable property should have the same number of bedrooms, bathrooms, amenities, etc. We always include a minimum of five rentals. The more rentals you include, the more accurate your estimate will be.

You will then take the average of the rents to get an estimate of how much rent you could charge for the subject property. This average is the **income**.

EXPENSES

Expenses include all of the monthly costs you incur to own and operate the piece of property. One-time costs such as the down payment, closing costs, or initial property renovations are not considered expenses in this formula.

A few of the monthly costs are estimated, but most can be accurately known by talking with your lender, real estate agent, and other professionals on your support team.

Known Costs	Estimated Costs
Mortgage P & I	Repairs and Maintenance
Property Taxes	Vacancy
Heat	
Electricity	
Condo Fees	
Insurance	
Management	

To establish value for the estimated costs, set aside one month's rent for vacancy, and one month's rent for repairs and maintenance. Some properties have certain costs that others do not, such as management fees and condo fees.

Be sure to always investigate and include *all* costs when evaluating a rental property. Leaving even one cost out of the formula could sink your investment. The sum of all these costs is the **expenses**.

CASH FLOW

Subtract the **expenses** from the **income** to get the property's **cash flow**. We always recommend a positive cash-flowing property of at least $200 per month for a property to be worth your time and energy.

Having a cash-flowing property insulates you from market fluctuations. As long as the property is producing positive cash flow, the market can move up and down and you can wait out the lows while still making money.

CASH FLOW EXAMPLES

By following our cash flow rules, an investor can identify a good investment from anywhere in the world. This pre-screening process clearly indicates which properties you should further consider and which ones you should leave.

Here are some example listings. For the purpose of this example, let's use the following information: financing at 4.5% interest, 20% down payment, and 30-year amortization.

City 1- Population 372,858

Property 1

Price: $149,900
Total Beds/Bath: 3/1
Rental Income: $980
Expenses: $878.95
Monthly cash flow: $101.05

Positive Cash Flow

Property 2

Price: $274,900
Total Beds/Bath: 3/1
Rental Income: $1200
Expenses: $1497.55
Monthly cash flow: -$297.55

Negative Cash Flow

City 2- Population 2,503,281

Property 1

Price: $499,900
Total Beds/Bath: 6/3 Triplex
Rental Income: $2998.33
Expenses: $2869.40
Monthly cash flow: $128.93

Positive Cash Flow

Property 2

Price: $519,000
Total Beds/Bath: 3/3 Triplex
Rental Income: $2916.67
Expenses: $2989.86
Monthly cash flow: -$73.19

Negative Cash Flow

City 3- Population 193,226

Property 1

Price: $260,000
Total Beds/Bath: 5/2 Duplex
Rental Income: $975 + $825 = $1800
Expenses: $1528.91
Monthly cash flow: $271.09

Positive Cash Flow

Property 2

Price: $395,000
Total Beds/Bath: 4/2 Duplex
Rental Income: $950 + $950 =$1900
Expenses: $2184.45
Monthly cash flow: -$284.45

Negative Cash Flow

This cash flow analysis is the first filter we use before even leave the house to view properties. Keep in mind there will be further scrutiny required to identify a great investment property. We continually look for ways to increase revenue and decrease expenses to tip the scales in our favor.

We always look for positive cash flowing properties, because there is no better feeling than taking checks to the bank!

You can't afford to miss this!

Another buzz word in the world of real estate is affordability.

As it turns out, the affordability index is a fantastic metric that gives us a look into the "real estate health" of a household as well as an entire city. We have used this tool for years to identify great communities to invest in. Here's a quick calculation:

$$\textit{Affordability Index} = \frac{\textit{Home Purchase Price}}{\textit{Gross Household Income}}$$

Home Purchase Price is the total amount a buyer pays for a property after negotiations, rather than the 'Asking Price' on the real estate listing.

Gross household income is the total household income from all sources and from all members of the household including Employment, Pensions/ Allowances and Other Income, Income Producing Assets, and Non-Income Producing Assets, such as insurance policies; RSPs...

A low index indicates that jobs are paying very well relative to the price of housing. Immediately there's potential for increased value as residents have the disposable income to invest in their home and community. People moving into the neighbourhood have high incomes and are able to spend more on a home, which drives home prices up. We often see home values increase faster than the national average in cities with a low index.

On the other hand, a high index indicates that people are overextended. For these households, housing costs account for a large percentage of their income, making it difficult to save and invest in their homes. As a result, we may see "run-down" homes, and even entire run-down neighbourhoods, begin to appear. High index cities can be held afloat by low interest rates in the short term, but home values tend to be corrected down eventually.

Also, the affordability index has proven to be a good indicator if we are wading in "bubble" territory. By observing what happened in the US, it appears that a real estate bubble began to grow around an affordability index of 6. As the affordability index increases, so do the chances of the bubble bursting. Of course, there are many other factors unique to each city, but the index offers market watchers an early warning.

The affordability index is such a great universal indicator across the country because it accounts for the local income. Home prices then become relative to income levels, creating an "apples to apples" comparison.

So, what is an acceptable affordability index? Everyone has their rules, and we have ours.

We never buy an investment property in an area where the affordability is above the provincial or national average.

We wouldn't advise anyone to buy their home with an affordability above 4.0. This means that if you are looking at a $400,000 home, your gross household income should be at least $100,000.

How does your city measure up?
Our affordability test will offer some insight:

Take the average home price in your city (ex. $400,000)

A.$______________

2. Take the average gross household income in you city (ex. $100,000)

B.$______________

3. Divide the avg.. home price by the avg. hous hold income (
ex. $400,000 \ $100,000 = 4.0)

In the example above, 4.0 is the affordability index,
or simply the affordability of that city.

Your Turn:

A$_______ \ B$________ = __________ affordability of your city

How your city ranks on the affordability scale

Affordability Index	Insight
0-2.5	You can buy the most home for your dollar! Expect population growth and home prices to rise soon. Developers will begin to build larger homes. You have a great opportunity to increase your savings or invest in local property before prices increase.
2.5-3.75	Your city is very affordable. With strong employment you will notice development of new neighborhoods and population growth.
3.75-4.75	You live in an affordable city. Your population, location, housing costs and income levels are likely well balanced. Your city offers ideal conditions for small and medium size business growth.
4.75-6.0	You're in check with the national average, nothing major to worry about. Ensure your lifestyle and saving are prepared for a potential dip in the local real estate market.
6.0 +	You're dancing in bubble territory. Be cautious: An increase in interest rates or local unemployment may cause home prices to plummet. You may also see an increase in homes for sale as residents and businesses move to a more affordable city.

Lets check on the rest of the country.

With all the problems we've seen in the last few years, we wanted to investigate where families across the country have overextended their income. We calculated the average affordability across five cities to capture a diverse group people. A city is considered 'affordable' if the affordability index is under my acceptable cutoff of 4.0.

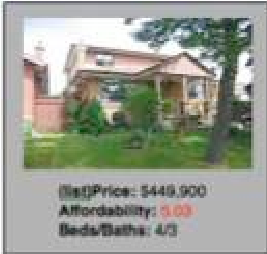
We also profiled two homes from each these cities to compare what we are buying to what we can actually afford.

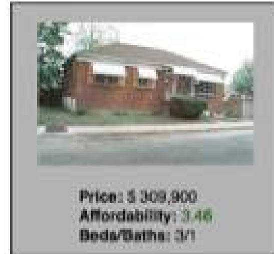
City 1

Avg. Income: $89,519

Avg. Home price: $441,607

Affordability: 4.93





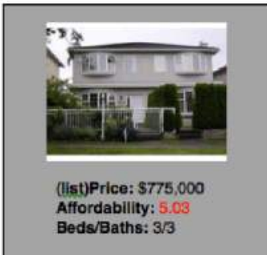
UNAFFORDABLE

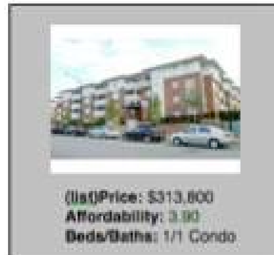
City 2

Avg. Income: $80,544

Avg. Home price: $762,100

Affordability: 9.46





UNAFFORDABLE

City 3

Avg. Income: $54,881

Avg. Home price: $110,981

Affordability: 2.02

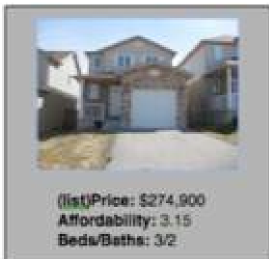
AFFORDABLE

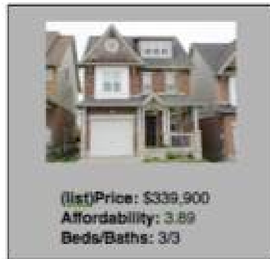
City 4

Avg. Income: $87,154

Avg. Home price: $274,726

Affordability: 3.15





AFFORDABLE

Investors’ Secret Tool: Variable Rates

Investors Secret: The variable rate

When coaching real estate investors, one of the most difficult questions we have to answer is whether to go fixed or variable. So we ask them “do you want the short answer or the long answer?”

Short answer: There is no short answer.

(Semi) Long Answer: Ok lets go. Stay with us.

It is important to understand that how you decide on your rate terms will differ if you are going after an investment property or your primary residence.

With an investment property you want more flexible financing to allow you maximum control of profit and cash flow. An open or closed variable rate allows you to take advantage of the powerful leveraging properties that your piece of real estate can offer.

Why do we like flexibility?

A couple of the most powerful strategies we investors use to maximize our cash flow are the refinance and the HELOC. Every year we re-evaluate and restructure our financing to make use of the low rates, new financing products, or added value equity in our properties. Doing this increases our cash flow, but requires us to break our existing mortgage and acquire a new one.

In virtually all cases the open variable warrants no penalty to break the mortgage and the closed variable penalty is relatively low.

On the other hand, breaking a fixed rate mortgage would require us to pay the interest rate differential, or IRD, which can range anywhere from $4,000 to $20,000!

Chalk up another point for the variable.

We called our lender last week to investigate how bad this IRD is for a property we are restructuring. Ideally, we would like to break the current fixed rate mortgage and move into a variable rate or HELOC. While on the phone we asked about another property we have with the same lender

Both properties are similar two-story single detached home, profiled below.

	Property 1
Principle Owing	$236,360.48
Monthly Payment P&I	$1,376.57
Interest Rate	5.7% Fixed
Maturity	August 1 2012
Amortization Remaining	22.5 Years
PENALTY	$14,673.02

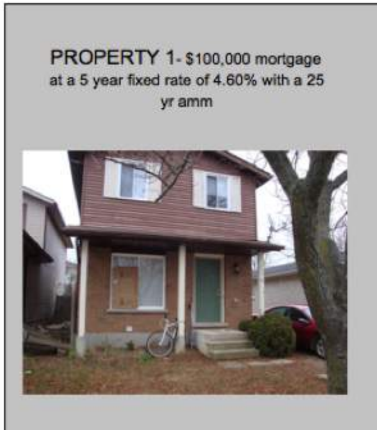
	Property 2
Principle Owing	$236,360.48
Monthly Payment P&I	$1,076.57
Interest Rate	2.1%Variable
Maturity	August 1 2013
Amortization Remaining	22.5 Years
PENALTY	$2,794

You mean to tell us that we will save $11,879.02 in penalties by choosing a variable rate mortgage!

Of course with the ARM you run the risk of prime increasing and paying an unpredictable amount of interest. We wanted to find out what would happen if prime went up by 1% every year for five years.

We have profiled two properties we have recently purchased below. To diversify the financing of my portfolio, we financed one with a fixed rate mortgage, and the other with a variable rate mortgage.

We've made the comparison on the first $100,000 for consistency.



Wow, even if prime increases by one per cent every year, we are still saving **$3999.99** in interest with the variable rate! And if we ever want to restructure the financing in the next 5 years (which we will) we will save an additional **$12,000** or so by dodging the IRD penalty!

An investor would save over $15,000 in financing cost per property! We know many investors with 20+ properties. Do the math and the additional income would make a wall street executive suddenly interested in real estate….

Ultimately your rate terms will depend on your portfolio diversity, your investment goals, and your risk threshold. One thing is for certain though, these guys will continue to ride the variable wave all the way to the beach!

	Advantages	**Disadvantages**
Fixed Rate Mortgage	More Accurate Budgeting	Higher Interest
		IRD Penalty
Variable Rate Mortgage	Lower Interest Rate	Increased risk/uncertainty
	Lowest Penalty	

Talk about a 'suite' return on investment!

When it comes to investing your money, nothing produces return on investment (ROI) like an income suite.

The best place to start generating rental income is within your own home. You already own the property so the investment risk is relatively low, and your cash infusion is limited to the cost of the renovation. For many homeowners it may seem like a huge sacrifice to lose the extra space that a basement provides….but unless that junk you're storing down there is paying you rent you should consider trading the space for an increase in income!

Added Income

Once you've decided that you like taking checks to the bank and reaping the benefits of an income suite is for you, the next step is to plan the renovation. First, answer the following five questions:

Question	Why?	Find the Answer	Your Answer
1. Can my property pass municipal zoning compliance to make it legal?	Some municipalities do not allow income suites, or commonly called 'accessory apartments'. Others have additional rules and regulations to follow.	Call your local zoning department and ask them what the rules and regulations are for your property.*	Yes or No
2. Does my property have a separate entrance to the income suite area?	Creating a separate entrance by digging cutting into the foundation is often too costly to make the project	Be creative… there may be a way to share an entrance with the main floor.*	Yes or No
3. Can my rental space conform to provincial building code requirements?	Ceiling height is easy to measure. As with the separate entrance it is usually to costly and impractical to change the ceiling height of your basement	As a general rule look for a minimum ceiling height of 6'11" or more throughout the space and 6'5" under bulkheads. There are certain exceptions in some areas, check with your local building department.*	Yes or No
4. How much rental income does a similar unit in this area collect?	You will use the rental income to calculate your ROI	One way to establish the market rent is to find comparable in your area. Look online or ask your real estate agent*	1. $_____ 2. $_____ 3. $_____ Average $_____/Month
5. How much will the complete renovation cost me?	You will use the rental income to calculate your ROI. Do you have the money required? Will it be worth it?	Get three quotes from licensed contractors. Be sure your contractor gets a permit, you want your income suite legal!*	1. $_____ 2. $_____ 3. $_____

Once you have done your homework and answered 'yes' to questions 1, 2 and 3, you will use your answers to question 4 and 5 to answer the final and deciding question…

What is my Return on Investment?

Many people know how to calculate the ROI, but what does it really mean? Most importantly how do you use the information to make a decision? Remember, you have to look at ROI differently when evaluating an income suite in your home vs. other investments like stocks and bonds.

Make it Measurable

ROI can be measured in two ways: percentage and time.

Percentage: The traditional way to measure ROI. If you invest $10,000 and receive $1,000 annual income from that investment, then you realize a 10 percent return on investment.

Time: Invest $10,000 and receive $1,000 annual income from that investment, your investment will 'return' itself, or pay back, in ten years.

Building an income suite in your home is a value added renovation. It appreciates your home by at least the same amount as the cost of the renovation, and often even more. If you do a $20,000 renovation to add an income suite to your $300,000 home, the value of your home should appreciate to at least $320,000.

Although it's comforting to know there is immediate added value to your home, it's even more important to determine whether it's a sound investment that will provide more than just a 'break-even' effect. The following system removes the guesswork and isolates the best investment opportunities. Follow this system to ensure your home is suitable for an income suite.

Evaluating ROI on an income suite

When evaluating the ROI your income suite will offer, it is best to use the time scale criteria. Measuring the return based on time is easier to understand and more practical to apply.

To find out how long it would take to recoup your investment, follow these simple steps:

Establish an accurate budget for the renovation. Add 15 percent for overages if you haven't already done so. For example, $20,000 + $3,000 = $23,000.

Establish the average market rent in the area. For example, $1000 per month.

Divide your budget by the market rent per month to get the number of months for payoff.

$23,000 / $1000 per month = 23 months.

In other words, it would take you 23 months to repay your initial investment of $23,000. This income suite project has a time ROI of just under two years. The renovation will pay for itself in two years, after which the rental income become extra cash in your pocket.

Your Turn

What is your time ROI? Use our formula above to calculate the time ROI for your income suite and see where you stand in my comparison chart below.

Time to return investment amount	
0 years - 2 years	You've struck gold! Do it. You're making a high level of income compared to what you have invested. You've either found a house with an inexpensive income suite, or a house that generates high rent. Either way, it's a smart investment.
2 years - 6 years	Strongly consider it, but be sure to consider other factors such as: -Cost of borrowing at the time -Opportunity cost of your time and investment money -How long you plan on living in the home
6 years to 10 years	This will take some serious consideration, Think about the following: -This is a large financial investment. Be sure you are adding the proper value to your home. -If the cost of borrowing is less than the income you're generating, then you are still cash-flow positive. -Consider the value you are adding to the property. -You may have the time and income to invest in your income suite now, for security in a not-so-stable future.
10+ years	The repayment period is too long, not a good investment

The addition of a rental suite to your home is the only value added renovation that will pay for itself, and then continue to generate positive cash flow. It is a common starting point, and a great launching pad for most investors.

Oh how 'suite' it is.

Cash flow vs. principle pay-down

This is a principle that we adhere to: Cash flow comes first.

We are big advocates of cash flow. The rental property business is all about cash flow. Some people talk a lot about building up equity in your properties, but we find that mindset similar to gambling. When you count on equity growing quickly, you are riding the market up and down. And as we've seen historically, it can be a roller coaster: Your house is up, your house is down.

If you plan on buying a property and making money as the market goes up, you might as well play the stock market or go to the casino.

Focus on cash flow

Focusing on cash flow limits your risk. If you're making money off your property every month, it doesn't matter if it's worth $1 million or $1.

Monitor equity

It's important to monitor the amount of equity that is building up in your investment properties, and to always keep a minimum of 20 percent equity. As you develop a portfolio that grows over time, you can tap into the equity in a rental property and use it to invest in other properties. It's a tax-free source of cash that you can use to expand your portfolio. Equity builds up gradually, and after 5 to 10 years, you could build up 40 percent equity in a home. You can refinance that mortgage – pulling out up to 80 percent of the equity – and use it to put down on another investment property.

Mixing home and business equity

Should you pull equity out of your own home? That's a personal choice, and some investors will advise you to use the cash value built up in your house. A lot of people will refinance or use a line of credit backed by their own

primary residence. Others avoid taking that kind of risk and avoid using the equity in their primary residence business affairs. That's like mixing business and pleasure

If you want to avoid tapping your home's equity, focus on using your investments to pay for themselves. You can even pay down your house as you go. It's very rewarding to know that each month you are closer to retiring with your house paid off and you have a solid portfolio of investment property. Some people tend to sleep better at night knowing that their house will be paid off soon.

Consider the level of risk you are willing to take. Then make the decision that is right for you about whether or not to tap into your personal home's equity for investment properties.

We are often asked how much money is appropriate to invest as a down payment. We have tended to put down as little money as possible, accepting the fact that it's more difficult to qualify for a mortgage. A small down payment also means you have to pay mortgage insurance, and you might have a higher interest rate. If there's a property that you absolutely know is a good investment but you don't have the down payment to do it, just put as little money down as possible and pick up the property.

The alternative is to put down at least 20 percent. It's like all or nothing here. A 20 percent down payment is the magical number that can allow you to qualify for a conventional mortgage, which means a better interest rate. That means you don't have to pay for the mortgage insurance premiums.

You have to be careful and stay focused on cash flow. A few years ago, around 2005, the market was really hot and many people were buying property with zero down or a tiny down payment. People weren't considering cash flow. They were focused on equity because they thought real estate prices would keep going up. This is where you can get yourself in trouble. You may have

equity in the home, but you don't have cash flow to carry the property. People end up buying these houses because they think they're only going up in value. When the value starts to decrease, they get burned. That's a common scenario that results in foreclosures.

Check cash flow

Before making an offer, know that the property is a good investment with positive cash flow. You can never be sure that there will be an increased value in the home. The market determines whether it goes up or whether it goes down.

That's the whole idea of what we're doing, is to get off that roller coaster. You can do research and make an educated guess as to how much rental income you're going to get. You can even guarantee how much rental income you're going to get by finding a tenant.

Then, you do your due diligence and calculate all your costs. You've got your income minus all your costs. At that point, if you have a positive number, you can be reasonably sure you have a good investment because of that cash flow.

Your house should be able to generate cash flow with no money down, based on your calculations. But then, if possible, you should put 20 percent down to avoid all the penalties of insurance premiums and everything else we talked about.

Down payment vs. cash flow

As we said at the beginning, the most important tool in real estate is leverage. Leverage allows you to use a little bit of money to control a lot of value. A perfect example of that is putting down as little money as possible when we buy a property. If you buy a $100,000 property, you can control it at 5 percent down with $5,000. Why would you want to control a property with 20 percent down, which is $20,000, when you can control it with $5,000?

Consider a more detailed scenario. For example, a lot of lenders are subject to mortgage insurance. It's a little bit different in the U.S. than it is in Canada. In Canada, if you buy any property with less than 20 percent down, you have to take out mortgage insurance on the property. Mortgage insurance costs anywhere from 2 percent to 5 percent of the loan amount. If you put 5 percent down and you pay $8,000 in mortgage insurance on a $250,000 house, you already owe $8,000. You're already a year behind in payments. So we would put down 20 percent whenever possible.

With U.S. property, in the absence of mortgage insurance, you can put down as little money as you can. So long as you work through the formulas and absolute criteria, if the numbers still work at zero percent down or 5 percent down, then that's the way to go. You're buying the most amount of house with the least amount of money.

If you put more money down, you're going to get more cash flow. The increase in cash flow is not equal to the increase in money you put down though. Go to the extreme case scenario. If you put 100 percent down on a $300,000 property, your cash flow is going to increase by $800 to $900 or $1,000 a month. Then you're tied at $300,000. You've completely lost the leverage and quality that real estate offers. You might as well put $300,000 into the stock market.

If it's a $100,000 property, you can invest 5 percent, 10 percent, or 20 percent. If you invest 5 percent, which is $5,000, you get $1,200 a month cash flow. That's about 20 percent of your original investment. If you put down $10,000, which is 10 percent, you get $1,200 a year cash flow. That's a 12 percent return on investment, so you lower your return on investment.

If it works out, do 5 percent, 10 percent, and 20 percent down. You can buy one house at 20 percent or four houses at 5 percent down. Other factors like closing cost should be considered.

You can buy four times as much house with your money so you should make four times as much cash flow with the 20 percent down so that you break even.

Double our payments? Nope.

We had a property with a $1,000 mortgage payment a month. Scott did the math and suggested that we double up our payments. We raised it to $2,000 a month and were generating $1,000 cash flow a month.

Scott said, "Hey, if we make our mortgage payment $2,000 a month, then we'll have this property paid off in five and a half years, instead of 25 years. And in six years, we'll have our property completely paid off."

Then Michael said, "Why don't we take that $1,000 every month, a $12,000 per year cash flow, and buy one property every year." At $12,000, you can buy properties at 5 percent down. That's the key if you're leveraging.

We decided to take that $1,000 and buy another property every year for five years. At the end of five years, instead of owning only one property, we partially owned five properties.

We did the math. Fully owning that one property would have made us $2,000 a month cash flow on rent, with the mortgage at $200,000. But owning five properties, which were all similar, meant earning $1,000 from each property. In total, we would make $5,000 a month.

It showed that partially owning five properties was 2.5 times more profitable than owning one property fully. At the end of the day, we would rather partially own ten properties than fully own one or two properties.

How much down payment do you put?

You have $20,000 for a down payment investment.

You've found a great rental property for $100,000 that passes all of the Successful Landlord cash flow rules.

One final decision... how much money should you put down?

Your answer: ________________________

Leverage the down payment

We love to practice the "money in my pocket" technique. That is, we put down as little as possible, as long as the property can pass the Successful Landlord cash flow rule of netting a minimum $100 a month.

The more money you put down, the less leverage you are using.

Two sisters

Below is a scenario involving two sisters, Margie and Sharon. Their Uncle Mike gave them each $20,000 when they graduated college, the catch being that they had to invest their money in real estate.

They had different views on how to best invest their money. For illustration purposes, we are leaving out closing costs and monthly expenses; they are the same for each property. We will focus solely on the cost of financing.

Sharon wanted a lower monthly payment to maximize cash flow. She put her full $20,000 down on a $100,000 property. This gave her a monthly mortgage payment of $515.44. With the rent set at $800 a month, her property generated cash flow of $284.56 a month, or $3,414.72 annually. That's a 17 percent return on investment.

Margie had a different approach. She wanted to put down the minimum 5 percent and keep the remaining cash in a bank account. She bought a similar $100,000 property and with $5,000 down, her monthly payment of $612.09

was more than her sister's. Sharon had a great time pointing out that her sister's property only generated $187.91 cash flow a month compared to her $284.56.

	Margie 5% Down	Sharon 20% Down
Money required	5,000	20,000
Mortgage Payment	$612.09	$515.44
Cash Flow	$187.91	$284.56
Marginal Increase per $5000	$187.91+ $187.91+ $187.91+ $187.91	$187.91+ $32.22 + $32.22 + $32.22
Cash Flow per $20,000	**$751.64**	**$284.56**

Margie was quick to reply. She noted that while her property had less cash flow than Sharon's, Margie tied up less money. Her return on investment was much higher, 45 percent -- a full 28 percent greater than Sharon's.

And to put a further damper on Sharon's celebration, Margie took her remaining $15,000 and bought three more similar properties with 5 percent down each. Margie's cash flow has now increased to $751.64 a month, compared to Sharon's $284.56.

The following chart illustrates the economics of the sisters both investing the full $20,000 with their respective techniques.

Margie managed to milk an additional $467.08 a month, or $5,604.96 per year from the same chunk of $20,000. That is leverage.

Why did Margie make more money by putting less down? Aren't you supposed to put down as much money as possible when buying a property?

Margie fully exploited the unique leveraging power that real estate has to offer. With an investment property, you get paid on the full value of the asset,

regardless of how much of that asset you own. Both sisters were getting paid $800 rent to use their $100,000 asset whether they put down 5 percent or 20 percent.

The following chart illustrates the economics of the sisters both investing the full $20,000 with their respective techniques.

Margie now controls $400,000 worth of real estate -- four times as much as Sharon's $100,000. This means that in addition to an increased cash flow, Margie will make long term appreciation (2 percent – 5 percent) on $400,000, and Sharon on $100,000. Also, Margie's investment dollars are more diversified.

The chart below illustrates that as you put more money down, your return on each additional dollar will decrease.

	5% Down	10% Down	15% Down	20% Down
Money required	5,000	10,000	$15,000	$ 20,000
Mortgage Payment	$612.09	$579.87	$547.66	$515.44
Cash Flow	$187.91	$ 220.13	$252.34	$ 284.56
Marginal Cash Flow Increase per $5000	$187.91	$ 32.22	$32.21	$32.22

Per $100,000, 6% interest, 25 year amortization. Rent is constant at $800/month. Expenses are consistent and left out of cash flow calculation.

As we can see, on the first $5,000 you will generate $187.91 cash flow. The next $5,000 chunk of money will only make you an additional $32.22. Every

additional $5,000 invested into the same property will only make you an additional $32.22.

If you were to invest your full $20,000 in one property you would generate a cash flow of $284.57 a month ($187.91 + $32.22 + $32.22 + $32.22)

If you were to invest your $20,000 in four separate $5,000 chunks, in four separate properties, your $20,000 would generate cash flow of $751.64 a month ($187.91 + $187.91 + $187.91 + $187.91).

Top 5 reno’s for highest ROI

For investors looking to maximize their return on investment, here’s all you need to know: building an income suite is by far the most profitable way to be a homeowner.

“How do I increase the value of my property?” you ask.

That’s the question on every homeowner’s mind. Market fluctuations can push your property values sky high, or they can diminish them to below what you originally paid.

How do you avoid being subjected to this volatility? There are two key survival strategies. The first is to think long term, have a plan and stick to it. History shows that this plan of action can pay off.

The second tactic is to outperform the market. This means ensuring your property increases in value at a greater rate than those in your surrounding market. One way to do that is through renovations – but not all projects are created equal when it comes to generating a return on your investment. Focusing your renovation budget on key aspects of your home, then, will garner you the best ROI.

Here are the top five ‘renos for ROI’:

1). Building an income suite

By far, this is the most profitable reno a homeowner can undertake – and this list may the first time that an income suite option makes it to the home reno Top Five.

In fact, it’s almost impossible to find any statistics on this subject. However, there’s no denying that housing prices have been increasing significantly faster than income. This means new buyers are finding it more difficult to

penetrate the market.

An income suite may provide the solution, since it increases both the value of the home and generates real income, making it easy to measure ROI.

In addition, a home with an income suite is often more attractive to a greater number of buyers. Potential homeowners who would otherwise be unable to afford a mortgage payment may be able to do so with the help of a renter. With the ability to both increase the value of your property and generate cash flow, income suites typically have a 150 percent to 250 percent ROI.

Building an income suite generates positive cash flow every year, making it the renovation that keeps on giving. Your initial investment is often recouped with the increased value of your home. The rent money is icing on the cake.

2). Painting

This is an inexpensive way to freshen up a property. Picking neutral tones and doing a good job are key. This simple reno project is an easy task to undertake as a Do-It-Yourself project, and it can dramatically improve the look and feel of a space at a low cost. That gives it our number two position with about 100 percent ROI.

3). Renovating kitchens and bathrooms

These areas are subject to intense examination when it comes time to selling a property, so it's time and money well spent – earning it our number three ranking in terms of best bang for your buck.

Kitchens should be bright and spacious with a smart layout. Replacing old appliances with inexpensive and more efficient newer ones also adds a lot of appeal.

Bathrooms are equally important. The more you have, the better the ROI.

Bathrooms with neutral tones and bold fixtures score highly. A beautiful faucet can take a bathroom to a higher standard.

Renovating kitchens and bathrooms delivers about a 75 per cent to 100 per cent ROI

4). New Flooring

This has a dramatic impact and hard surfaces are the way to go. Laminate flooring is inexpensive, easy to lay, durable and looks great. With modern styles and improved design, it has become the flooring of choice for real estate investors.

Stepping things up a notch and using real hardwood can deliver an even greater impact. Tiles are best in bathrooms and also can work well in the kitchen. Refinishing existing hardwood with a modern look presents the best possible scenario, cost-wise, for updating floors.

New flooring can generate an average of 70 per cent to 90 per cent ROI.

Real estate investors often look for hardwood hidden under wall-to-wall carpeting when scoping out investment properties. If you suspect hardwood under the carpet, sneak a peek by removing a floor vent and lifting the edge of the carpet and under pad. Refinishing existing hardwood can save you a fortune and it looks incredible. Don't be floored to see a 200 per cent ROI in this scenario.

5). Light fixtures and door hardware

These can reveal the true age of a property. Installing proper lighting and a few nifty fixtures in the right places, namely the kitchen and dining room, will brighten up the space and create atmosphere.

Touching door hardware is unavoidable when walking through a property, and since it may be the only thing prospective buyers or renters will touch, it could have a significant impact on their first impression of the home.

Updating the hardware in the kitchen can transform the look of the cabinetry.

With the right touch, updating light fixtures and door hardware can generate a 60 per cent to 75 per cent ROI.

Recipe for the most delicious ROI in the house

If you want to cook up a fortune in your house, follow this recipe for the highest possible returns on investment (ROI). It's a delicious recipe for income.

Whether you are building an income suite in your house or investing in new rental properties, the best place to invest your dollars is in the kitchen. Kitchen renovations often provide the hottest returns in the house, if done correctly and within budget.

Kitchens carry a lot of weight when it comes to selling price of a home. It is the most important room in the house and a huge renovation investment. The kitchen sets the stage for the standard of the home, and if the renovation is done properly can contribute significantly to the value of the entire property, and make it sell faster.

But be careful that your project does not price your home out of the neighborhood. Kitchens renovations – or reno's for short – are expensive undertakings. The cost for your kitchen remodeling project should be based on the value of your home. Spending 10 percent to 15 percent of the home value is a good rule of thumb for a kitchen remodeling budget.

Following this rule of thumb, it is possible to earn 100 percent or more return on investment. Investing more than 15 percent could lead to a poor return on investment or a home valued higher than the local market expectations.

To realize the highest possible ROI, here are six key strategies to earn maximum ROI on your kitchen renovation.

1. Manage the Project

This is the most important step. You must manage your labor and coordinate the project if you want everything to run smoothly. If you are living in the

house during the renovation, be sure to prepare you and your family for very awkward living conditions as you will quickly realize how important the kitchen is once it's out of commission. Make arrangements for food prep and be sure to protect routes in and out of the construction area so trades people don't trash the walls and floors.

If you don't like the way something is done, tell them to redo it, because you will be looking at it for years. If you have to redo something later, it will be very expensive. If they understand that you are managing the project carefully and that you care about quality, they will be far less likely to cut corners.

2. Budget

Start by knowing the limits of your budget. There is no way you will get a good ROI if you start spending too much. Remember to keep the cost below 15 percent of the value of the home. Use a checklist to make sure you have considered all the angles. If you have a lot of experience in remodeling projects, you can probably create a good cost estimate based on the work you want done.

Unless you're a contractor yourself, it makes sense to get a free estimate from a professional to make sure you have a good handle on the cost of the project. To keep the project costs down, consider doing some of the work yourself, such as the demolition.

3. Design

If the changes are minor, a floor plan may not be necessary. But if you are doing any major changes, be sure to make accurate floor plans and elevations of the room. You can find free software programs both online and many kitchen supply stores allow you to build a virtual kitchen. Your new kitchen should be beautiful and functional. Remember, if you want to keep a high ROI, the kitchen needs to appeal to 90 percent of the population 90 percent

of the time. This means nothing too crazy or specific.

In an expensive home, you may need to hire a designer to ensure the kitchen's look is consistent with the rest of the home. But as much as possible, use standard size cabinetry rather than ordering custom pieces. This could cut your cabinetry cost by 30 percent and shave weeks off the ordering process, since most standard pieces are ready for immediate pick up. By saving time and money, your ROI stays nice and high!

4. Hire a contractor

If it's a big reno job, get the right help. Hire a contractor who knows about kitchens. Ask friends who have done recent kitchen renovations for recommendations and check online for contractors specializing in kitchens. When you find a contractor, do reference checks and go as far as asking to see some of their previous projects to be sure they can do what they have promised.

Don't cut corners cut to save a buck here. Make sure the contractor gets permits and has work inspected, because a botched installation brings little to no value to your home and can be costly to repair.

5. Less is more

This is where you can really get the most bang for your buck. If you can get away with simply making a few updates to the kitchen rather than a full re-do, chances are you will be seeing an ROI of 100 percent or more.

Decide if the renovation is going to require a simple updating or a major re-do. Inexpensive new appliances bring the most value to a functional kitchen that may appear out of date. Little fixes – such as changing door hardware, lighting, decorating, window coverings, and painting – are fairly simple. Replacing a nasty counter top with granite has an immediate impact on the perception of the entire kitchen. If the cabinetry is in good shape, updating

the doors may be all that's needed.

On the other hand, if your kitchen is totally dilapidated, don't even bother attempting to fix it. If you put a dress on a pig, it's still a pig! You are better off starting fresh. You may want to take out everything and put in new everything. Unfortunately, this will cost a lot more. Assess the costs carefully at the start. Even professional house flippers can get stuck with higher bills, when they plan poorly for kitchen renovations.

Higher renovation costs will lower your ROI. If your kitchen has created problems like water damage or mold in other areas of the house, be prepared for even lower ROI. It will cost you more to fix those problems than you might be able to earn back for a while.

6. Be Savvy

It's your house and your money. Take this renovation seriously and be clever and meticulous. Decide what has to be done to update the kitchen, and what you can afford to keep or simply update. Do research on the Internet about clever design techniques and do-it-yourself projects that are inexpensive and have a positive impact on the space. If your cabinets are in good shape but ugly, you might consider painting them or refinishing them yourself.

You can also change the door hardware yourself. (The pre-drilled hole in your existing cabinetry is probably standard and will fit a new handle from the hardware store). Consider painting and changing the lighting. Simple updates done yourself will be the least expensive way to make the kitchen a nicer space and generate you the highest ROI.

How to not get ripped off by contractors

You have decided to build an income suite or renovate a new property, but you don't want to do the work yourself. You need to hire a contractor, but you're afraid of getting ripped off.

Choosing the right contractor is a crucial decision. It's not something you should rush into. The contractor should have the technical, business and interpersonal skills -- the tools and the experience needed to do the job. Hire a contractor who has experience with projects similar to yours. This contractor will know which materials and techniques are needed, and even better, about problems with similar work — and how to solve them.

Checklist for Hiring a Contractor:

What to do first

____ Write a description of the work you want done, with as much detail as possible.

____ Check with your municipal building department to ensure that the work can be done and if zoning approval or any special permits are required.

Find a contractor

____ Ask friends and neighbors for recommendations.

____ Get names from your family members, friends, local homebuilder and renovator associations, building supply outlets and, in some municipalities, your local building department.

____ Ask contractors for their business license number and check with the local licensing office and the firm's insurance company for public liability and property damage insurance, and workers' compensation.

____ Ask for references from previous customers.

____ Check with the Better Business Bureau for complaints against the contractor.

Establishing the cost: getting estimates or proposals

____ Number of estimates or proposals: __1 __2 __3

Do you have:

____ A complete description of the work to be done by the selected contractor?

____ Samples and literature showing the products that could be used?

____ Depending on the size of the project, plans or sketches and specifications of the work to be completed?

The contract should contain

____ Correct and complete address of the property where the work will be done.

____ Your name and address.

____ Contractor's name, address, telephone and registered business numbers.

____ Detailed description of the work, plans (or sketches) and a detailed specification of the materials (type, quality, model) to be used.

____ The right to retain a lien holdback as specified in local law.

____ A clause stating that work will conform to the requirements of all

applicable codes, such as building, safety and fire codes.

____ Start and completion dates.

____ The price and payment schedule (keep in mind the lien and seasonal holdbacks).

____ Agreement on who (homeowner or contractor) is responsible for all necessary permits, licenses, inspections and certificates.

____ Termination clause, giving you the option to terminate the contract.

Contractor's responsibilities include:

____ Public liability insurance.

____ Property damage insurance.

____ Identifying any necessary permits and ensuring all legal requirements are satisfied.

____ Workers' compensation for all employees of the contractor or subcontractors.

____ All work carried out under the contractor, including work done by subcontractors.

____ Removal of construction debris when the job is finished.

____ Warranties on all contractor supplied work and materials (in addition to manufacturer's warranties) for a period of at least one year.

Homeowner's responsibilities include:

____ Ensuring that all contracted work conforms to zoning bylaws.

____ Ensuring adequate working space and freedom of movement for workers, and use of utilities.

____ Ensuring prompt payment according to the requirements of the law and the holdback and payment schedule.

Two brothers: Cash flow vs. Work

Scott's property with the smallest cash flow is a condominium that generates $100 a month. All of his expenses add up to about $1,400 a month and he rents the condo for $1,500 a month. He has other properties that cost about $2,000 a month and rent for $5,000 a month, which gives him a $3,000 cash flow. Both kinds of properties are profitable, and that's the most basic thing.

Keep in mind that a property that requires little work will generate less cash. That's OK. It all depends on your situation. Scott's brother, for example, is a real estate investor like him, but less hands-on. He's married with two children and doesn't want to be a full-time property manager. He doesn't want to have to mow the lawn, pick up garbage or maintain buildings.

Scott's brother is willing to spend some of the cash on property management rather than handling it himself. So he buys townhouses that are a part of a condominium corporation. He pays the condo dues, which covers the maintenance work, but also reduces his cash flow.

Scott's a little more aggressive. He likes to buy houses that have higher cash flow, but require more work. He has to invest more time and effort, but in return he makes more money. In the past, he would even cut the grass himself rather than hire people to do yard work.

These days, he prefers to hire Michael's own maintenance crew for a lot less than a condo management firm. He also deals with the tenants himself. He does all the work and he keeps all the money.

The FIRST 6 steps to having Cash Flow for Life

Step 1

Get to know your State/Province. Find out where property is expensive, where it isn't and where property is showing excellent growth on investments. Your state/provincial landlord-tenant website is a very good resource for landlords because it often has a page that lists vacancy rates, average rental rates and the socioeconomic status of specific areas. Real estate calculations vary widely, so you will need to figure out the start-up costs involved, including mortgage payments, agent's fees and taxes. Subtract the expected rental income, allowing for a 5 percent or so vacancy rate, and determine your shortfall, if there is one. This will depend on the area in which you purchase property.

Step 2

Find out what the duties of the landlord are in your State/Province. The government has a very informative website that lays out the duties and disclosure responsibilities of a landlord. You can find this website by searching in Google: "[your state/province] [landlord and tenant laws] Another thing you can do is to ask a local real estate agent. Real estate agents usually know a lot about local landlord and tenant laws.

Step 3

Be selective when buying property. Renters are usually students, newly married couples or single parents–usually middle class. If you would like to rent to students, consider areas around a University, but not in a major city. This will keep your acquisition costs low, and margins high. If you want to cater to families, try a suburban area near a bus line.

Step 4

Consider the condition of your property. How much money are you willing to invest? As the landlord, you are responsible for repairs, so it's a good idea to get a home inspection before you purchase the property. Tempted as you may be to purchase the cheapest property possible, in the long run, you will likely lose money on repairs and upkeep.

Step 5

Consider whether to furnish the apartment. This may depend on whether you are going to rent to students. Purchase comfortable, neutral furniture that will appeal to the widest variety of people. If you choose to furnish the apartment with electronics, you could charge a separate fee for the rental of those items.

Step 6

Build your reputation. Your job as a property investor is to make sure your renters are as comfortable, safe, and happy as possible. Attend to complaints as soon as possible, and go above and beyond for your tenants. If you do this, you are sure to get referrals.

Location, location, location potential

The most challenging part of becoming an investor is finding properties that will generate income for you. For new investors, the first task is to identify what is an income property. More importantly, you'll need to be able to identify a profitable income property.

Your first income property should be in good shape – something that doesn't need a lot of work, either in renovations, permit issues, or financial headaches. This may mean a smaller cash flow over time, but much lower risk. That tradeoff is worth it when you're just starting out. Buying an income property in decent condition is the safest way to test your investor skills without taking on unreasonable levels of risk.

Keep it simple when you are just starting out as a landlord; there will be plenty of time to take on more complex – and potentially lucrative – deals. The bottom line is, the property should be something that's just about ready to rent to a paying tenant. You shouldn't have to renovate a whole floor or build extra rooms to make it profitable.

Turn-key property

An income property that is fully rented is known as a turn-key property – because you can literally turn the key in the door and walk into a house that's generating cash flow. Buying a turn-key property as your first investment property is the safest and lowest-risk way to get in the real estate game. Once you get good at the basics of being a landlord, you will learn how to look for properties that have profit potential, including fixer-uppers that have more profit potential.

Typically, a good income property isn't just something there ripe for the picking. It takes some skills to be able to identify and examine a home and determine whether or not it's going to make a good income property. Here are some general principles for finding profitable rental properties.

General trends

When you are considering an investment, look at the surrounding area. Make sure you assess the local rental market, considering affordability, public transportation, average household income, the number of post-secondary institutions, unemployment rates and job growth. If there is strong employment growth, that's good because people will be moving to the area for those jobs. Are there a lot of students in post-secondary education? They tend to rent properties which yield high returns.

We look at population growth and demographics to get an idea of the market. Then, we look at average household incomes to see if they're increasing or decreasing. We check to see if the home prices and rents in the area match what people can afford. Even if the rental market is strong, you don't want to buy into an area where there's a mass exodus, the unemployment rate is increasing or the average income is decreasing. In such cases, home value is likely to drop.

Wealthy people increase the value of an area. The more people are earning, the more those houses become worth. If the average U.S. household income is $50,000 and the average house in the U.S. is $150,000, then things are well-balanced.

Let's say the average household income in your county or province is $100,000 a year, but the average house is only $300,000. In that case, the price of houses is going to increase because people's incomes are high enough for a different level of house. They will end up investing more in their homes and doing upgrades. Similar people will move into that neighborhood, continuing the influx of wealth.

This leads us to an important measurable…

Affordability

We do what's called an affordability calculation to see whether people can afford houses in an area. The concept of affordability is important. During the boom times, affordability was very low. In 2006, for instance, the entire U.S. housing market was considered to have an affordability index of almost six times, which means the average price of a home was about six times the average household income. That meant the average U.S. household earned $50,000 annually, but the average house price was $300,000.

That's not sustainable. You can't afford to spend six times your household income on the price of your home, because it's going to take you 45 years to pay it off using every penny you have. That's why the bottom dropped out of many neighborhoods when people realized they couldn't afford to live there.

Affordability is the one number that gives us a look into the "real estate health" of a household, and even an entire city. We have used this tool for years to identify great communities to invest in.

A low index indicates that jobs are paying very well relative to the price of housing. Immediately there's potential for increased value as residents have the disposable income to invest in their home and community. People moving into the neighborhood have high incomes and are able to spend more on a home, driving home prices up. We often see home values increase faster than the national average in cities with a low index.

On the other hand, a high index tells us that people are overextended. Housing cost account for a percentage of their income, which is much too high. Households find it difficult to save and invest in their homes. Maintenance becomes neglected, as there is no money to pay for it. We may see 'run down' homes, and even entire neighborhoods, begin to appear. High index cities can be held afloat by low interest rates in the short term, but home values tend to be corrected down eventually.

Also, the affordability index has proven to be a good indicator if we are wading in "bubble" territory. By observing what happened in many US cities, it appears that a real estate bubble begins to grow around an affordability index of 6. As the affordability index increase, so do the chances of the bubble bursting. Of course there are many other factors unique to each city, but the index offers market watchers an early warning.

What allows the affordability index to be such a great universal indicator across the country is that it accounts for the local income. Home prices then become relative to income levels, creating an "apples to apples" comparison.

Between major points

In assessing areas, we have found that the best value comes in the areas between major cities or between two major destination points. If you can find an undeveloped area in your geographic radius, it might be worth investigating more. These areas are the gaps between established communities.

Let's say you have two great communities that are about 6 miles, or 10 km, apart. Right in the middle of those two communities is no man's land. The real estate values are low, but they have the greatest potential for growth. As the two established communities grow and expand outward, the demand for outlying properties will increase – thus raising prices.

Think of it as two circles close to each other expanding outward. Eventually the circles will overlap. Your goal is to predict where the overlap will occur, and investigate property in that area.

Strong rental demand

If you look at properties within a region, you will find a range of prices, features and neighborhoods. On the outskirts of a city, you might find single-family homes in a rural atmosphere while downtown are multi-level condominiums in an urban setting.

Your first priority is selecting a neighborhood where demand for rentals is strong. You will then determine the average home price and the typical rent for that kind of property. Make sure that the rent at that level will generate enough income to make a profit, based on the prices of the houses on the area.

Get to know the landlords in that area, as well as the real estate agents and mortgage brokers. They will be able to tell you if that area is really hot right now. You can also do your own research to determine rental demand and vacancy rates. If there is a landlord association or group in the area, contact

them for information and get involved.

Vacancy rates

How can you determine the demand for rentals? Look for an oversupply of tenants, which is shown by a low vacancy rate. You are looking for an area that has a lot of renters and not enough rental properties, leading to high demand. Typically, you find that in urban centers, around post-secondary schools, and colleges.

You can easily find out vacancy rates by researching online. You can find out the vacancy rates of certain neighborhoods and whether the vacancy rates are rising or falling. Obviously, you are looking for an area where the vacancy rate is on the decline, which means more demands for rentals – and less surprises for your cash flow needs. You can Google "(your city name) vacancy rates," and all kinds of articles will pop up. You can also buy research data online from information search companies or real estate data sites.

Real estate magazines also provide information about vacancy rates in certain areas. These publications tend to provide general trends, so make sure you still do your homework about your specific neighborhood.

What's a good vacancy rate? We like vacancy rates of 3 percent or less. Many real estate professionals consider a 5 percent vacancy rate to be a healthy balance in a rental market. In other words, when the vacancy rate is 5 percent, the demand for rental properties just about matches the supply.

When the vacancy rate is 3 percent or less, it means there is a shortage of rental units. The demand for rental units outpaces the supply. For landlords in that area – ka-ching! There is room for growth for investment properties in those markets. Conversely, if the vacancy rate is higher than 5 percent in an area, it means an oversupply of rental units in the market. Unless a flood of new tenants is entering that area, avoid those neighborhoods or proceed with caution. If you already own property in these areas of high vacancy, you may

have to lower your rent until the market adjusts.

Transportation

When assessing properties, we also look at public transportation. In general, the more transportation options, the better. Consider the property's access to freeways and highways and proximity to public transportation such as subways, buses, street cars, trains and airports. People like to be near convenient transportation.

Businesses and amenities

Remember to also think about the major businesses in the area. How far is the neighborhood from major businesses, institutions, universities or cultural attractions – places where tenants might work or play? Does the area have other amenities – restaurants, shopping areas, grocery stores or parks – which appeal to tenants? Obviously, the closer your property is to such places, the more tenants you will attract and the higher rent you can demand.

If the area is on the city outskirts, it may not have these major amenities yet. But if the city and developers have plans, it could mean growing rental demand in future. If you do choose that area, your rental income today must still generate cash flow. Don't bet on the future, while losing money today.

Neighborhood values

Once you've assessed the overall market of an area, you want to start getting to know the values of a specific neighborhood. Neighborhoods can differ in price just by being on opposite sides of a main street. Houses on the same street can differ in price by being on opposite ends of the street.

Each of the top 5 cities in North America – New York, Los Angeles, Toronto, Chicago, Boston – can be broken down into hundreds of smaller neighborhoods. You're only fooling yourself if you wake up in downtown

L.A. and say, "You know, I'm gonna find out what the vacancy rate is like in L.A. and then I'll buy the house next door based on that number." This does not work.

Market values are so local that even tiny pockets of neighborhoods can shift in price. The value of your house will not necessarily be the same as your neighbor's house down the street or even next door. The same is true of renting. Your house will not necessarily rent for the same amount as the house next door. If your house is at one end of the street, which is a 10-minute walk from the local grocery store, it might rent for less than your neighbor's house on the other end, which is just a 3-minute walk away. You have to become a local expert to know the micro neighborhood market values.

Using the tools: Finding gold in your area

A friend of Michael's wanted to get into real estate, so he guided her into buying her first home.

She was a 21-year- old woman who bought a very nice, newly-built condo in a developing area. She paid $129,000 with a 5 percent down payment. A year later, she realized that the condo wasn't for her.

She wanted to relocate, so she called Michael for advice on how she should sell the condo, and which agent she should call.

"Well, let's take a step back," Michael said. "Maybe you shouldn't sell. Maybe you should rent it."

She had the same reaction that many people have. "I can't rent it," she said. "I don't know anything about renting or being a landlord."

But Michael asked her to take a moment and explore the idea.

We looked at the current value of her condo. At that point, it had grown in value from $129,000 to $142,000 – not enough of a boost in equity to cover the agent's commission if she sold the condo. She definitely wouldn't make money if she sold it. In fact, she would end up losing money.

Zoning changes

Michael decided to examine the area around her property to make predictions about its future value and opportunities. They looked at the land across the street from her condo. It was agricultural, mainly farmers' fields, but the city was in the process of rezoning it to a CR, which is commercial-residential. Commercial-residential is generally the best zoning for an investor because of its flexibility. Anything can go there, from single-detached homes to other condos to a plaza or a mall.

They contacted the city to get some more information and learned that the city was building a major transit hub about a 10-minute walk from her condo. That kind of project is a huge infrastructure improvement. It not only increases nearby rents, it also increases property values. Michael determined that she had a bit of a gold mine on her hands.

"You're near rezoning, and this huge infrastructure development is going to happen in the next few years," Michael explained to her. "The value of your property is probably going to skyrocket."

Major transit hub

Since none of this development had happened yet, they were making decisions based on speculation. However, they found out that the zoning change and the city's transit hub were scheduled to happen very soon.

Michael convinced his friend to rent the property even though it would only cash flow about $100 a month after all her expenses. Sure, it wasn't a lot of money, but it followed the $100-a-month rule. She was really nervous about renting it, but once she had the forms and the information she needed, she was ready to go.

Rising values

Michael's friend rented out her property and as planned, it cash flowed $100 a month. The commercial-residential zoning change went through. A couple of years later, a developer started building a mall across the street. The city built the transit hub. More condos were being planned nearby.

With all the activity and the increase in density, property values in the area went up. Five years later, the condo was worth $190,000. That was $61,000 more than she paid for it.

Not only was the property worth more, she was able to charge higher rent

because of all the infrastructure improvements in the area. Today, the property cash flows around $400 a month. Meanwhile, Michael's friend has been paying her mortgage and her principal balance had decreased.

She made the right decision by keeping that property, and now she has no plans to get rid of it.

Flocking to the highest return on cash

We always keep our eyes open for real estate deals because at Keyspire we always talk about 'invest where returns are best'. A few years ago, Michael went down to Florida when many properties were being scooped up at huge discounts by Canadian and British investors or snowbirds looking to soon retire.

If there was a deal to be had, Michael wanted a piece of the action!

The most important questions were: 1) How did prices in Florida compare to prices in cities he was familiar with? 2) Could the properties be rented to cash flow positive?

The cities that Michael was most familiar with were, of course, in Canada. But if you live in the US or any other country, you can use the same formula. The point is to find markets you know with comparable properties.

First, he compared a property in Florida to similar properties in Toronto, Collingwood and Vancouver. It was just as nice as any he had seen in the Canadian cities. The anchor property in Florida was a 1,362-sq-ft 2-bedroom 2-bath unit backing onto the golf course listed for $174,000. After doing a little homework, he discovered that the same model, just a few buildings down the street, sold for $389,490 in 2006! After negotiating briefly with the sales staff, he found that they could offer the unit at $160,000.

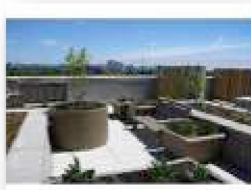
Michael researched rents in each city for similar units to estimate the projected annual rent. It is always important to ensure that the gross rental revenue covers your expenses and services your mortgage.

The massive list price differences surprised him. The 2004 to 2006 prices for similar units in Florida and Canada seemed to be floating around the same level, $380,000 to $420,000. However, from 2006 to 2010, prices abruptly shot in opposite directions. In Canada, prices skyrocketed north, but in

Florida, prices literally went south of the border.

Let's take a closer look:

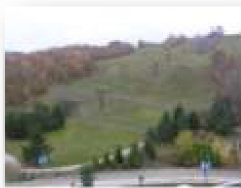
Property 1- $160,000
Location: Naples, Florida
Lifestyle: Gated Community, 1200 residents, central clubhouse with social room, conference room, spa, resort pool
Interior: 1361sqft 2 bedroom, 2 bath, overlooking lake and golf course
Exterior: 4 story building, new build
Price 2006: $389,000
Annual Condo Fees: $8,936
Annual Rental Income: $12,000-$18,000



Property 2- $599,999
Location: Queens Quay, Toronto, Ontario
Lifestyle: Upscale well managed building, close walkto yacht club, airport and all entertainment

Interior: 980sqft Penthouse 2 bedroom 2 bath, overlooking lake and park
Exterior: 16 story building on Lake Ontario
Price 2006:
Annual Condo Fees: $8118.84
Potential Rental Income: $28,000

Property 3- $575,000
Location: Roncesvalles, Toronto, Ontario
Lifestyle: Urbanites who want to live west of the busy downtown core
Interior: 1300sqft 2 bedroom 2 bath, rooftop patio,
Exterior: 7 Story building with City views
Annual Condo Fees: $10,478,64
Potential Rental Income: $25,000-$28000



Property 4- $549,000

Location: Collingwood, Ontario

Lifestyle: Condo community, available room service, workout room and year round outdoor pool and hot tub

Interior: 906 sq-ft 2 bedroom 2 bath, overlooking Blue Mountain

Exterior: 4 story building at the foot of Blue Mountain

Annual Condo Fee's: $10,920

Potential Rental Income: $24,000

Property 5- $659,000

Location: Vancouver, BC

Lifestyle: Adult living, Access to full gym, 2 saunas, social room, library, workshop, close to ski hill and marina

Interior: 1025 Sq-ft 2 bedroom 2 bath condo

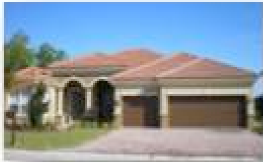
Exterior: 8 Story building on waterfront with view of city and ocean.

Annual Condo Fees: $4506.48

Potential Rental Income: $30,000

Property 6- $164,900
Location: Toronto, Ontario
Lifestyle: Uptown apartment.
Interior: 1 bedroom 1 bath
Exterior: Lake front property with a view
Annual Condo Fees: $4788.72
Potential Rental Income: $18,000

One more comparison, if Michael was prepared to spent $600,000 in Canada, what kind of bang for my buck could he get in Florida?



Property 7- $599,000
Location: Naples, Florida
Lifestyle: Gated Community, 1200 residents, central clubhouse with social room, conference room, spa, resort pool
Interior: 2926sqft ranch style bungalow 5 bedrooms 3 bath 3 car garage
Exterior: 0.5 acre property, 700sqft combined finished patio and entry
Price 2006: $899,000

Annual Condo Fees: $10182.76
Potential Rental Income: $18,000-$24,000

OK, you get it. To buy a similar unit in Canada and receive 1.5 times the rental income, Michael would have to spend three times the money! Then he thought, what would $160,000 buy him in Toronto? He found the listing above and many similar to it.

When we shared his findings with friends and relatives, a family friend was so impressed that he visited the property he described, and purchased it one week later for $155,000. Before closing, he had already found a tenant and signed a lease.

Hmmmmm, that's exactly the kind of thing we would do!

How to make your money work for you

The coolest thing about being a real estate investor is the freedom to do what you want, when you want. When you leverage your resources well, you have time and money to spare.

That's when you start to see how money can work for you. You are no longer just working for money. But how do you know how well money is working for you?

We use a tool called cash-on-cash return, or COCR. Cash flow is the lifeblood of any business, but COCR is the measure of that cash flow strength.

COCR is a very important and often overlooked tool when evaluating a real estate investment. It is often confused with return on investment. The main purpose of COCR is to identify how much cash you are putting into a project, and how much cash you are getting out.

This tool is very efficient at measuring whether or not you are exceeding the opportunity cost of your money. In other words, it's a great way to find out if your money would have made you money if you had invested it elsewhere.

The formula is:

Annual Cash Flow x 100 = CASH ON CASH
Total Cash invested RETURN (COCR)

Annual CASH FLOW

This is how you calculate it. Subtract the monthly EXPENSES from the monthly INCOME to get the property's monthly CASH FLOW. According to our rule, the cash flow must always be positive – a minimum of $100 per month -- for a property to be worth your time and energy.

Having a cash flowing property insulates you from market fluctuations. As

long as the property is producing positive cash flow, the market can move up and down, but you can wait out the lows while still making money.

CASH INVESTED

The cash invested includes the total cash infusion required to make the entire project profitable according to our cash flow rule above. Including, but not limited to, the following items:

- Down Payment - Generally 20% for a rental property in Canada, 5% in the US
- All closing costs - Legal fees, land transfer tax, etc.
- Renovations required - An investor will often have to renovate an investment property before it is rented.
- Carrying cost until the property is rented

Cash-on-Cash Return

Divide the ANNUAL CASH FLOW from the CASH INVESTED and multiply by 100 to get the property's COCR index. According to our rule, the COCR index must always be a minimum of 3.5 for an investment property to be worth your time, and cover the opportunity cost of your cash investment.

The following chart illustrates the different levels of COCR

COCR %	WHAT IT MEANS	YOUR STRTEGY
0-3.5	You are receiving too little cash for what you are investing.	Only consider this property if you are an experienced investor
3.5 - 6.0	You are earning more than money market guaranteed investments	Look for Cash flow of $250 or higher, and future potential

6.0 - 10	You are more than covering the opportunity cost of your money	Develop a solid support team and successful landlord skills to expand your portfolio
10.0 -15.0	Your money is now working for you!	Find more similar properties to consider
15.0+	You are getting maximum return on your cash investment	Find more similar properties to consider

Once you have prescreened a property from home to meet the cash flow criteria (minimum $100 per month), it is time to visit the property and evaluate the COCR. We always visit a property before calculating the COCR, because you never know what renovations are required until you physically show up.

Calculating and analyzing the COCR brings the investor one step closer to finding that great investment property. It's important to note that a good property will satisfy both the cash flow rule and COCR rule. Here are some examples.

Note: Financing at 4.5% interest, 20% down payment, 30 year amortization

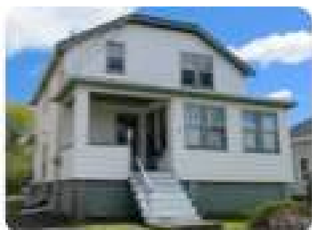
Property 1- City Population 372,858

Price: $149,900
Total Beds/Bath: 3/1
Rental Income: $980
Expenses: $878.95
Monthly cash flow: $101.05
Annual Cash Flow: $1212.6
Cash Infusion: $35000
COCR: 3.5
Favorable CASH FLOW
Favorable COCR

Property 2- City Population 2,503,281

Price: $499,900
Total Beds/Bath: 6/3 Triplex
Rental Income: $2998.33
Expenses: $2869.40
Monthly cash flow: $128.93
Annual Cash Flow: $1,547.16
Cash Infusion: $120,000
COCR: 1.3
Favorable CASH FLOW
Unfavorable COCR

Property 3- City Population 193,226



Price: $260,000
Total Beds/Bath: 5/2 Duplex
Rental Income: $975 + $825 = $1800
Expenses: $1528.91
Monthly cash flow: $271.09
Annual Cash Flow: $ 3,253.08
Cash Infusion: $60,000
COCR: 5.4
Favorable CASH FLOW
Favorable COCR

If the property passes both the cash flow rule and the COCR rule then it is a solid investment property! Keep in mind that you still need to take a few more steps before proceeding to purchase an investment property. Being proactive, doing all your homework, and properly analyzing the numbers are the keys to a successful career as a real estate investor.

With the old school banking rules, it wasn't uncommon to put 5% down on a property and get a COCR of more than 10.0. In this new era of financing rules on rental properties, investors must turn more and more to indicators like COCR to maintain profitability and sustainable growth.

It's a great tool to have in your box, while building Cash Flow for Life.

The secrets to earning cash flow before you buy

Find tenants first

Think ahead and line up tenants before you have a place to put them. It's better to have tenants and then find them a home, than to have a home and search for good tenants. We usually look for our tenants first and then buy a house they can rent.

How do we find potential tenants? We do the research ourselves. We pick an area where there seems to be a good rental market, and narrow it down to a street or an intersection. Then, we will put a listing on the Internet for a house that we don't actually own. It's a hypothetical listing. You don't put in the exact address. You write something like: "A four-bedroom house for rent near the intersection of Main Street and Chestnut Avenue." Try to base the ad on houses that are for sale in the area. It's basically a generic posting for the types of houses that you're looking at for sale, to see if people are willing to rent them for the rent that you require to make money on the property.

Placing an ad like this is a test. We wait for people to call, and if there's no response, then we know that this is not a good rental area. But if we get a good amount of people responding, we might say something like this: "We have something in this area that might be coming available. We are in the process of purchasing this property. Would you be interested in coming to see it?" We'll meet them at the property and show them the house. Then, if they agree to sign the lease, we'll put in an offer and buy the house. That's the ultimate in managing your risk: You have a lease signed with the prospect of steady rental income before you even close on the property.

Remove the risk

That's what we call risk-free renting. You're buying a house for a specific tenant. And you're only buying it because you have a tenant, basically removing the risk. If you're signing a minimum of a one-year lease, then

you have a whole year to figure your situation out. After a year, there's good chance that the property has appreciated in value, so even if you had to sell it after that, you might break even.

We usually look at breaking even as your worst-case scenario. After you bought your first property, if you find there's a strong demand in that area because you've done some research, use that one house as a model for other homes. Find more people who want to rent in that area, by using the generic Internet advertisement, and give them a tour of the house you own. Tell them you are close to buying a property nearby and ask whether they would be interested. Then, if they are willing to sign a lease, buy a house up the street from the one you already own.

Using this method can help you obtain financing. If you already have the property on track to be leased, it can help you qualify for a loan. It's important to have documentation, so make sure you get the prospective tenant to sign a letter stating that they intend to sign a lease. You can actually use that as contributing income to qualify for the down payment on the house

Tenants help you get financing

You can often use an "Intent to Lease" letter from a potential tenant as contributing income to qualify for the down payment on a house. If you already have it leased, it can help you qualify for the house. That's because the bank knows you have a source of income to help pay the mortgage.

Make sure you check with your mortgage advisor, because the lending rules can change. A few years ago, you could only use 50 percent of the income from a rental to qualify for a lease. At other times, lending institutions have allowed you to use between 80 percent and 100 percent of the rental income toward qualifying for a mortgage. Either way, if you have a signed lease, it helps you in the purchasing process. It might just be that extra bit of income you need to qualify for that house.

If you can't find a tenant who is willing to sign an intent-to-lease letter, don't buy the property. It doesn't matter if your intuition is telling you that demand exists. Trust the results of your research, which showed a lack of demand. Don't make a gamble, because you will likely end up with a vacancy and no way to pay the mortgage.

Remember, you can't sign a lease for a home you don't own. Timing is imperative. You can show tenants the house for sale that you've already toured. If you, your real estate agent, and your tenants go on through this house, and the tenants show a lot of interest, say: "I'm putting an offer on this house," and give them a timeline. For example, if you are on track to close escrow by Friday, say: "Will you be willing to sign a lease on Friday?" If they agree, take a security deposit from them and have them sign a letter stating their intent to lease the property. Then, tell your mortgage agent that you have lined up a lease, and ask them whether the lease will allow you to qualify for the loan. They should be able to get you pre-qualified based on having a signed lease.

Immediate cash flow

You can usually close within 30 to 90 days on a property transaction. Many tenants are looking for a place at least 30 to 60 days ahead of time, so it works out perfectly. Try to set your closing day at the end of the month, so there is only a day or two before the tenants move in. You start generating cash flow right away.

This scenario, of course, assumes that a property doesn't require any major work. If the property needs to be fixed up, then you might need to make those improvements before you advertise it. Otherwise, you will need to buy yourself some time with a tenant who is willing to wait a bit longer before moving in.

When you are just starting out as a landlord in a new area, you should keep things fairly simple. For that first property, pick a house that doesn't require much work. The goal is to get someone in there, and get it rented quickly. It's a way to get your feet wet, while minimizing your risk. You can get a good idea of what the demand is by attempting to rent the property again. If you have a long list of people who are interested in leasing a property, you have found a great market. When we found that kind of demand, we would buy houses as fast as we could to fill all the spots we had for tenants.

No mortgage payment first month

The first month, you pay almost nothing for the mortgage payment. Normally you would only pay 30 percent. That is a huge blessing because now the first month's rent can go towards your down payment. You have the first and last month up front, and you have the check for that second month. You don't even skip a beat.

Top 8 ways to find great tenants

Finding a stable tenant right away can make or break your experience as a landlord.

It can be a bit scary to be a landlord. Some people fear confrontation with the tenants. They don't want to deal with a problem such as a noise complaint. They don't want to chase tenants down to get the rent checks. We are going to discuss those scenarios and ease people through the process. If you're organized and professional, and you choose the right tenants, then it should be a smooth process with no confrontation at all.

If you have good tenants, it will make your job much easier. First and foremost, you want tenants who pay the rent on time. You want them to be upstanding people who get along well with neighbors, whether they are in the same building or on the same street. To find these tenants, you need to know how to market your property.

Advertising is key. You want to attract enough applicants to allow you to select the best candidate. To do so, it's important to present the property in a positive light. You can basically list all the positive attributes of the property, and it's easy to follow and understand.

Here are the top eight ways to find great tenants:

1. YouTube

Consider producing a video tour and posting it on YouTube. People appreciate the ability to preview your property. It saves them time and may help pre-sell them on your property before you have even met. In the last couple of years, for example, we started using nontraditional marketing techniques that reached a whole new group of potential customers. We would make slide shows on our computer and put them on YouTube. Then we began producing video tours so tenants could preview the property instead of just

reading an ad. We have had great response.

2. Websites

Today, many landlords consider using Craigslist ads as a substitute or complement to print ads. The Internet has become the place that most people begin their search for a rental. Try searching in Google for "rental properties" and add the city where you are located. You'll see several websites pop up, showing you how people in your area are using the Internet for marketing.

Putting the right ad online is the best way to find tenants. You can fit unlimited information in cyberspace, and the reach is only limited to the entire plant! Anyone can find it with a search engine or through the rental posting website. Also, You can update the listing with a couple mouse clicks, which is a very efficient use of your time.

Obviously, the Internet ad should have your contact information; and you may be able to e-mail back and forth before setting up a meeting with a tenant. If you set up contact information via e-mail, you won't have to worry about people phoning you at work and knocking on your door. You don't necessarily have to put your exact address; you can write down a street name.

Eventually, you would probably want to get your own website. At that point, you could provide a more sophisticated presentation, with links for each of your properties and lots of photographs. We have websites where people add themselves to waiting lists for our properties, so when they become available, we just start going down the waiting list.

3. Newspapers

Traditional ways of marketing your property include classified ads in weekly or daily newspapers, or even a local neighborhood Pennysaver publication.

We have not found this to be the most cost-effective method of advertising.

When you take out a newspaper ad, you're only going to reach people living in the distribution area of that newspaper. Also, it can be expensive compared with the free options online.

4. Fliers

Other ideas for promoting your property include distributing fliers in the neighborhood. We're not a big fan of this method because fliers don't tend to reach enough people. Also, it can be labor-intensive to distribute them in a large area.

The way you word an ad is very important. You want the tone to be informative and friendly. In some situations, using simple bullet points can be well received. You can basically list all the positive attributes of the property, and it's easy to follow and understand.

5. Signs

Some people place a sign in the front window or in the yard, but in our experience this can result in calls from people who are just curious or who aren't serious about finding a house.

Ideally, you want someone new to the area, versus someone who already lived in the area and is shifting from house to house. The tenants who respond to our online ads seem more professional than those who rely on walking past a sign on my lawn to find their next home.

6. Word of mouth

Don't forget that old standby – word-of-mouth advertising. You might be surprised at how effective it can be. Talk to neighbors, civil activists and church leaders in the area. Suggest that they pass the word to their friends, and give them a business card with your phone number or website on it.

Avoid renting to family and friends. Word of mouth is good, as long as you're not reaching people who are in your immediate circle. Use word-of-mouth to find a neighbor's baby sitter, a friend's teacher or a co-worker. Those are all fine prospects for tenants.

The stairway to heaven with tenants

There are two types of tenants. Those from heaven and those from hell. Tenants from heaven help you make money. Tenants from hell cost you money – sometimes a lot. The good news is that you get to be the gatekeeper. The bad news is that you don't know which tenants are from where – until it might be too late.

As the landlord, your job is to weed out the tenants from hell and let in only tenants from heaven. The tools you are going to use: Interviews, lease agreements and background checks.

How do you screen prospective renters? Start by visualizing the kind of tenants you want to live in your house. In general, a mature, single adult is the ideal tenant for most landlords. This is the kind of tenant who will pay the rent on time and stay for a long period.

The application gateway

The gates to heaven are thick. Before you admit anyone into your rental heaven, you have got to make sure they get through the gates.

Without investigating your applicants, you may get renters who will trash your house, move in their friends, or stop paying the rent after three months. Through a time-consuming and expensive eviction process, you will probably lose money getting them out of your house.

Some landlords feel uncomfortable calling references and may not know how to do a credit check. Today, these are essential steps in screening tenants and you skip them at your peril.

Try to screen prospects over the phone. If they seem to have potential, set up a time to meet with them and give them a tour.

Always have prospective tenants fill out an application. If two unrelated people plan to rent the place together, they should fill out separate applications. It's important to get their information in writing. You can verify some of their answers as you conduct the standard background check. Depending on the market, you may or may not want to charge an application fee.

1. Use tenant application forms

The application is a chance to ask important questions of a potential tenant about income, rental history and background. Ask for references, and do a credit check. You want to make sure that they'll be able to sign a one-year lease.

There are a lot of other things that you can ask. You can ask if they smoke, and you can have a rule that there's no smoking in the house, for example. In some cases, it may be illegal to discriminate and refuse to rent to a smoker, however. Check with an attorney if you aren't clear on the rules in your area.

There may be legal restrictions on discriminating against pet owners. Make sure you know the rules

2. Screen tenant applications

To run a background check, you will need specific information. Make sure the application asks for their full names, Social Security Numbers, current and past addresses, rental history, names and phone numbers of past landlords, and their places of employment, going back about five years. You should also have a disclosure in your application that you plan on running a credit check based on the personal information provided.

3. Run background checks

It is especially important to do background and credit checks on tenants when you live in a large metropolitan area. Things might be easier if you are

renting a home in a small town where everyone knows their neighbors. If you own a house in a rural area, it might be easier to find people who know the prospective tenant.

In urban areas, you'll probably have to rely on database searches to get information about your prospects. The most important qualifier is a positive rental history. Make sure to call any rental management company or landlord that the prospective tenant lists as a reference. Always ask about any late payments. If their past rental history turns up no red flags, it's a good sign.

You are also looking for a history of stable employment and adequate monthly income, as shown by their ability to stay current on their bills. A credit report will indicate how well the prospects handle their debts. And you'll get a good reading on whether they can afford to rent your house.

Here's what you can do:

1. Sign up with a tenant screening company. Look for a subscription rate in which you can obtain a certain number of credit checks on demand for a fee.

2. Consider the applicant's FICO score, but make sure you weigh other factors, such as employment history.

   Criminal background checks are not considered standard, but in some cases, they may be warranted. Seek the advice of your tenant screening company. Sometimes, despite your best efforts, a tenant will turn out to be a problem. In other cases, a tenant with a not-so-stellar credit score may turn out to be reliable and trustworthy. That's just life.

4. Ask about pets

Pets can take a toll on your property, so make sure to ask about dogs or cats. It's typical in some areas for landlords to charge $20 or $50 more in rent for

a pet. There's usually a pet deposit, too, because pets scratch up your carpet.

5. Call references

Before signing a lease, you have to go through an application process. The tenant fills in an application. You do a credit check and call their references such as previous landlords or employers. Make sure to ask the right questions. Try to get a sense of what kind of impression the tenant left, ask open-ended questions and listen to the reference's tone of voice.

You'll want to ask about payment history, as well as obvious questions about the tenant's behavior and character. This is your opportunity to get to know the tenant before committing to a lease. Once the lease is signed, it is difficult – although not impossible – to terminate it. It's much better to avoid a tenant from hell in the first place.

Questions to ask a previous landlord:

Do they always pay on time? Did they ever have any pets?
Did they get along well with other tenants?
Did you ever have any problems with them?
Is there anything else I should know?

Questions to ask an employer:

When you call the tenant's employer, you want to ask specific questions that reflect the person's past, present and future. Here are some examples:

1. How long have they worked at the company?
2. Is their job secure? Do they have a future with the company?
3. Are they a good employee?
4. Can you describe the person's character?
5. Can you confirm the salary level on the application?

Is this a base salary, or is it linked to commission?

It takes work to find tenants from heaven. But by using these tools, you should be able to find the tenants who will create heaven with your property.

6. Charge late rent fee

You can also charge a fee to discourage late payments. Usually, a late fee is charged if the rent is not paid by the third of the month and is a percentage of the rent. The fee charged must comply with the county, municipality or state laws. Generally, you will be safe charging 5 to 10 percent of the rent. Still, check with the local Housing Authority to determine what you can charge. If you decide to charge one, then insert a late fee clause in the lease.

Expect normal wear and tear on your property, such as small scratches and scuffs on the wall. The best way to ensure against excessive damage is to ask for a deposit. If the tenant can pay first month, last month and security, you are smart to take it.

7. Include a damage policy

Also, include a damage policy in the lease and state what will happen if actual damages do occur, such as keeping the security deposit or deducting the amount you spend on fixing the damage. By making these steps clear, you can help avoid any confusion that might arise.

If nothing can be worked out with a tenant, again check with the local government housing authorities to find out the procedures for dispossessing a tenant. You will usually need to hire an attorney.

8. Collect deposits

We ask tenants to pay first and last months' rent for the year, then we ask for 10 post-dated checks for the rest of the year.

That's the way to get a hassle-free, professional person. You now know they

have some savings, because they're paying you first and last months' rent upfront. You know they have a bank account because they're giving you post-dated checks. You know they have a credit history because you're pulling their credit report. You know they are stable because they're signing a one year lease.

By collecting all 10 post-dated checks from them, you don't have to worry about confrontations. You don't have to knock on their door every first of the month. You don't have to chase your tenants to get the rent paid. You've got their references, and their employer's phone number. You even have the name of a supervisor that you can contact in case there's a problem.

9. Collect rent upfront

By using our method, you will make the rent collection process so much easier. We do all our work in a matter of two to three weeks. The rest of the year, we just maintain the properties and cash the checks. We don't chase tenants for money. Now and then you will get a bounced check, and that's a different situation. That's a matter of saying, "This check didn't clear. Can you please give me a replacement check?" The tenant generally feels terrible about it.

With certain tenants, you may have someone who wants to stay a whole year and pay upfront. We give them a 5 percent discount if they pay the entire year at the time they sign the lease.

Those are the 9 gates that a tenant must get through. It is better to have a vacant property than to admit tenants from hell. Stick to your strict application process and choose only the best tenants. With tenants who pay their rent on time and protect your property, you will be in landlord heaven.

Meet New Tenants at a Coffee Shop

We like to meet our new tenants at a coffee shop, depending on where we're located, and of course buy a round of coffee. That small, inexpensive gesture gives everyone a positive feeling. For $8, you get a friendly landlord-tenant relationship right off the bat.

The 7 MISTAKES every new landlord makes and how to avoid them

1. They talk too much

When showing a property to tenants, LISTEN! Don't tell them about yourself; let them tell you about themselves. I have to say this is probably the best method of screening tenants. You can call references all day and guess what? They will always recommend the applicant. By listening to what the potential tenant is saying, and letting them tell you their story, you will quickly become good at judging character, and you will learn more about their lifestyle in 5 minutes than with a 5 page application.

2. They give no welcome gift

Always begin your landlord-tenant relationship on a positive note, and there is no better way to do this than with a welcome gift for them upon move in. It could be as simple as a welcome letter or a restaurant gift certificate. We guarantee that nine times out of 10 the small amount of money you spend on this gift will come back to you many times over.

Tip: The best gift to get your tenant during their tenancy is a gift certificate to a home improvement store. They will usually use it to buy things for the house, your property, which will usually add value to the property and will always increase their 'pride of ownership' feeling.

3. They do no improvements before they rent the property

When purchasing a property, or when between tenants, many landlords will neglect to 'spruce things up'. Well this is the best time to do your value added improvements. Yes cash flow is generally lower at this time, but now is the time to renovate for 2 reasons:

There is no one living there to get in your way. The property is probably vacant because it is due for improvements! Spend some money on improvement and it will not only add value, but you will rent out your property sooner, to better tenants, and maybe even for more money!

Tip: if you are planning on improving the property to refinance, now is the time to do it! You can't do a major renovation while to the property is full of tenants.

4. They save no money for emergencies

When you start to receive cash flow, don't go and spend it all. Save it! Apply some towards the purchase of your next property, and always keep an 'emergency fund' with some cash to cover unexpected expenses. These may include things like a new roof, furnace, etc.

5. They overextend their finances and leave no safety cushion

Whenever you do your cash flow analysis, you should calculate your payments at a 25 year amortization and the 5 year posted rate. Also don't forget to subtract 5% for vacancy allowance and 5% for maintenance and repairs from your rental income.

Creating this safety cushion is one of the best ways to minimize your risk. An added benefit is that if you can improve any of these variable while you own the property, your cash flow can only increase! (ex: have no vacancy or acquire financing at a rate lower than the 5 year posted).

6. They have no business plan

"He who fails to plan, plans to fail"

One of our favorite quotes from the brilliant strategist Winston Churchill. Before you go look at property, call an agent, or even read the classified for sale ads, you must have a plan. Here are four steps to creating your plan:

1.Set your goals
2. Make them measurable
3. Develop a plan in line with you goals
4. Execute your plan

7. They underestimate the renovation costs

Whenever you are doing any renovation, always add 15% to you budget. Always. We have been through hundreds of renovations, ranging from the very small to the very large, and there is only one constant across all reno's: they always cost more than you think they will. Make sure your contractor provides a contingency (usually 10-15%) in the budget.

Why does this happen? Well, simply put, you never know what you're going to come across once you start opening walls and ripping up flooring and fixtures. Also, the older the house is, the more over budget you may find yourself.

It's always better to come in under budget than go over!

Handy tools to free your time

You don't want to become a slave to your business. The goal is make more money and have more time. The way to do that is to automate your business. Let your processes run automatically, so you don't have to. That gives you more time to play music, spend time with the kids, or take vacations.

Here are six simple, but powerful, tools to free your time.

1. Automatic payments

Automate your routine payments whenever possible. With property expenses such as the electricity, water, sewer or trash bills, it's easy to lose a bill or forget to mail a payment on time. If you are late, the late penalty comes out of your wallet, not the tenant's. You wasted your time and reduced your income that month. That sucks. Need we say more?

2. Automatic debits

These days, smart landlords set up their accounts so that the payments are automatically deducted. Rather than link the payments to a bank account, set up a credit card for your business and set up auto-pay from the credit card. It's easier to dispute errors or overcharges if they are on a credit card rather than debited from a bank account.

When you get that credit card, use it strictly for business related to your rental properties. Don't get in the habit of using it just this once for a plane ticket to go on vacation. It is much simpler to keep all your business expenses separate from personal expenses. Think of how much easier it will be to do your accounting to pay the taxes on your rental properties. At the end of the year when you're doing your accounting, just bring your credit card statements to your accountant.

We have automated everything. The bills essentially pay themselves. Rather

than pay numerous utility bills, and run the risk of a late payment, they are all deducted from our business account. We just get a statement in the mail and stash it in the appropriate folder.

Having a business credit card is almost like having a bookkeeper, because you can look at your credit card statement and know exactly what you spent that month. Based on the statement, you will be able to identify that you spent a certain amount of money on property maintenance, for example. Once you do that, your life will be much easier.

3. Tenant notifications

At certain points in the lease, you will fire off some automatic forms. When we first start a lease, the first e-mail the tenants will get is a scanned copy of the lease and a "welcome to your new home" document. We send that e-mail off to everybody on the lease. The second form that they get is the moving instructions.

It's a notification that the moving day is coming up in a week, the house will be clean and inspected and there will be a lockbox on the front door that can be opened at 12:01 a.m. at the commencement of their lease. They will be sent the lockbox code so they can move in at 12:01 in the morning if they want.

We put the lockbox on a week in advance and don't e-mail the tenants the code until that night. Some e-mail assistants will let you schedule an e-mail. You can draft an e-mail that is automatically sent to all the tenants on the first of the month at 12:01 a.m. The e-mail provides the lockbox code, so automatically everybody's good to go. We can let a thousand people into their houses at 12: 01 a.m. on the first day of their lease, all while we're sleeping.

This helps avoid the many tenants who say things like, "Oh, please, can you let me in early?" or, "I don't have a place to put my stuff and I'm moving out

at the other place," or, "Can I have just a few days extra?"

We just say to the tenant: "You know what, in all fairness to you, I won't ask you to move out early and I'm not going to ask my old tenants to move out early either. If the circumstance arises that they're out and the house is ready to go, then we can offer it up. But, the worst case scenario is just after midnight you'll be able to get into the house if you have to be moving in the middle of the night from the other house. Then, you can pack up all day and then at midnight drive over to your new house to move in. There are a lot of landlords who won't meet you there until 10 or 11 the next morning."

4. Rent receipts

Your tenants are going to want rent receipts, so have a template ready on your computer. That way, you can just fill in the blanks. You won't need to create a receipt from scratch each time. We even scanned our signatures so we can put electronic signatures right on the rent receipts. It's a huge time-saver, because we don't even have to mail the signed receipt.

We just open the previous rent receipt on the computer and change the name, the date, the dollar amount and the lease term. Within three minutes we have a new receipt and e-mail it to the tenant – no stamp or envelope needed. You can even have your secretary do it.

You can also e-mail just one receipt for that year at the end of each year. If the tenant terminates the lease, or the lease ends in the middle of the year, we'll send them the rent receipt pretty much the day after they're out, for all the payments they've made for the year.

5. Lease renewal

We also e-mail notifications to renew the lease. We used to send that out 90 days before the end of a lease so our tenants were given the first option to renew the lease. The notification is a standard form that says,

"Dear Tenant, We want to thank you for a great year and a great relationship. We've been happy with the way things are going and we would like to offer you the first opportunity to renew the lease and stay in your home. Please notify us within 30 days so that we can arrange to renew the lease and continue on. If you're not planning on staying, please reply to this e-mail notifying us in writing that you're not intending to stay on with the lease. That way we can post the house for rent and start showing it. We have to wait to rent out the house until 60 days before the end of the lease, so that gives us 30 days to figure out how to proceed."

So at exactly 60 days to the end of their lease, we can send the final notification out, usually a rent receipt.

6. Duplicate yourself

The main idea is to create a system like an organized language so that you can teach somebody this language and they can do the work for you.

We organized this system and it was very easy to explain to our new assistant. We showed her our e-mail system, the spreadsheet format with everybody's name, e-mail, checks received, checks owed, and the green, red, and blue font color scheme. She easily learned that everything in red requires an e-mail to those people and when they send in their check change it to blue.

When you have only two more months left on payments, it's time to send out the "end of lease" notification. If the tenants send the notification back and say yes, you just renew the lease.

You want set up the system so that you can explain the whole system in an hour and an administrative assistant can manage it for you. Show the copy and paste notifications and ask, "How fast can you send out 500 e-mails?" All your sent and received e-mail messages gives you a paper trail of everything.

7 places to find power partners

Like the old adage says: It's not what you know, it's who you know. It's networking. The more you grow in your real estate business, the more people you want to know. That's how you will find power partners, who can help you grow and even influence your community.

You won't get paid for joining such groups, but you will make important contacts and have access to insider information that can catapult you in your business. The information can range from new proposed laws to city development plans. All of these can significantly affect the value of your real estate assets.

You can visit a lot of these groups before you join. Most of these groups offer free meetings open to the public. The individuals you meet in those groups will eventually become power partners.

Here are 6 places to find power partners.

1. Landlord associations

Go online and look for landlord associations in your area. Find out when they have open meetings and go. When you're there, collect business cards, names and emails and make a list of people. These are all potential power partners.

Joining associations is an excellent way to become a successful landlord. By going to meetings, you can learn exactly what the rules are and how much the tenant can bend the rules when push comes to shove.

Anything you learn from these meetings will help you as a landlord.

In many regions, the landlord and tenant board is biased towards the tenant. Laws typically favor tenants as well. Usually, the only reasons that you can get a tenant out is if the tenant doesn't pay the rent, commits an illegal action,

or damages the property. Joining a landlord association gives you more clout as a group.

If there isn't a landlord association in your area, start one. That's what we did. We now have hundreds of people in our association. You can use this membership base as clout in your community, particularly in policies that affect the real estate industry.

2. Landlord committees

If there's a landlord committee in your area, join it. If the politicians are onboard, they're always happy to start another committee to keep city policy on track.

Attending board meetings is great for networking. When you meet people you click with, the possibilities are endless. It's another arm of your networking. You'd be surprised how quickly you get to meet new people when you show up to these meetings.

When you join a landlord committee, it brings you into the inner circle of who's who in your community. It's very important. When you want to become a respected real estate investor and you know so many people in the landlord community, it really expands your business.

3. Major employers

If you're in a city with 300,000 people or less, there will be a couple of major employers who hire a lot of people in that area. You can reach more potential tenants if you reach out to the major employers.

You can contact the human resources department for those major employers, and ask them to tell employees who are new to area about your rental properties. A lot of employees will want to rent in your area.

If you head a landlord association, you have more opportunity to get to know these businesses. The more business people you know, the more influence you have within the community.

4. Neighborhood groups

All cities have neighborhood groups. We have a group and all the residents get together, sometimes formally and sometimes informally. The meetings are enjoyable and being involved with those neighborhood groups as head of a landlord association gets your foot in the door.

5. Community committees

Sit down with as many committees as possible in your community. It may be the sports committee, public park committee or the rental housing committee. It's a great way to meet movers and shakers in your community and raise your own profile.

6. Universities and college committees

Another group that you want to be in touch with is the colleges or the universities in the city, and you definitely want to be involved with the community officer, if your city has one.

You don't get paid. You're doing it for the contacts and the networking. You're doing it to gain a foothold in the elite circle of people in your community that make decisions. So sit down with as many committees as you can and dedicate a couple hours a week to be involved with your community.

7. City Council meetings

Another place to create power partners is at City Council meetings. This is a great place to get to know your local politicians. It's also a great way to find out about city development plans, new laws and policies and other proposals that will affect your industry and business.

Get involved with your City Council, planning meetings, and local boards. It's your job to have the inside scoop at all times.

You need to know city leaders, other landlords, and business leaders, to name a few. You want to know what the new regulations are and how that affects you.

You also want to know key people who can refer potential tenants. Creating a presence in the community is part of promoting your business.

Using the tools: Visiting the landlord-tenant board

Michael recently became involved with his local landlord and tenant board, which is like a whole court system for landlords. He had never had to go to this type of landlord court, but he wanted to learn how the system works.

The board has a different name in every province and every state, but the principles are the same. Landlord and tenant laws are generally made up at the provincial and state level. If there is an issue between landlord and tenant, you have to take it to the board or the adjudicating body, which is usually a provincial or state body.

Board meetings are typically held every two weeks and the public is welcome to come and just watch. The meetings can be held in the city hall, at the local courthouse, or sometimes even at a local coffee house. The time commitment is minimal. The meetings only last about two hours, and it's amazing how much he learned in that short amount of time.

It's basically a trial. An adjudicator sits up front with the landlord at one table and the tenant at another table. The adjudicator could be a real judge as long as he or she has ten years' experience as a lawyer, then is nominated and approved to be judge. An adjudicator has the same powers within their jurisdiction, but they just become nominated as an adjudicator without the years of experience. The process involves some legal activity, but it's simple.

Michael has met restaurant owners, business owners, and a lot of affluent people through this landlord committee. He met three landlords at a board meeting in City Hall. We got to chatting and he added them to my landlord list. Once, he met a printing company business owner, and we talked about doing some printing work together.

About the Authors

Michael Sarracini

Michael Sarracini is an award-winning entrepreneur & real estate investor. Starting over 20 years ago as a university student with nothing but debt and the drive to succeed, he turned a small government loan into a multi-million dollar real estate empire that allowed him to retire at 25. With his new freedom he then explored other industries including television, e-commerce, real estate development & private education.

Today Michael is CEO of Keyspire and Chairman of The Sarracini Group. He focuses on adding value to people through personal development & education and adding value to land through strategic partnerships & development.

Michael's team has trained more than 100,000 real estate investors and helped them generate tens of millions of dollars in net worth. As an entrepreneur, he has won multiple business awards for business growth, sales revenue and employee satisfaction, and in 2016 he led the #1 fastest-growing consumer business in the country.

Michael supports his business growth through strong leadership, solid business practices and community involvement. Michael believes in, and invests heavily in, his personal growth & personal development. He believes strongly in community involvement and sits on the board of directors and the leadership committee for the Children's Foundation.

Michael lives with his wife and two boys just outside of Toronto, Canada. He loves to spend his time with his family: swimming, mountain biking, hiking, BBQing and big family dinners. He also enjoys scuba diving & playing squash.

Michael's ultimate goal is to help his partners and his students maximize both their profits and their purpose so they can live enriched and fulfilling lives.

Scott McGillivray

An internationally renowned TV star, real estate investor, contractor, and accomplished businessman, Scott McGillivray is the definition of an entrepreneurial success story. Although Scott is best known for his hit TV shows, his passion lies in educating people to make a smart investment and renovation decisions and how to succeed in the uber-competitive world of real estate.

Scott McGillivray has been a top-rated TV star since 2008 and an award-winning Executive Producer of 11 seasons of the hit series Income Property on HGTV/HGTV Canada where he made his mark by helping 100's of cash-strapped homeowners renovate their properties to create maximum rental income. This blockbuster hit show brought a fresh new voice to lifestyle television, wowing viewers across North America, and now around the world in over 50 countries.

Scott is a proud Ambassador for Habitat for Humanity Canada, drawing attention to their new home build projects across Canada and the important issue of affordable, safe homeownership for Canadians as well as the resulting positive societal impact.

Born and raised in Toronto, Ontario, he now divides his time between residences in Toronto and Fort Myers, Florida along with his wife Sabrina and daughters Maya and Layla.

As a skilled contractor, best-selling author, inspiring public speaker, educator, and leading guest expert, Scott McGillivray is trusted for successful renovation and return on investment tactics. He is a respected influencer and digital trailblazer who engages daily with his 600,000+ followers and had an impressive 800 million+ impressions in 2016 across social, digital, TV, and publicity.

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"If all you have is a hammer, everything looks like a nail"

You need the proper tools to build anything: a house, a car, even a cake. Building your real estate investment career is no different. Scott McGillivray, host of Income Property, and Michael Sarracini, real estate investor and veteran entrepreneur, have packed some of the most powerful ideas into this toolkit.

Michael and Scott bought their first property as University students.After buying and living in a student house together, these two friends quickly recognized the potential wealth to be created through real estate. As they invested in more properties, the guys recorded all their experiences and lessons learned. As a team, Scott and Michael have been involved in hundreds of real estate deals and have managed over a thousand tenants.

Whether you are a seasoned real estate investor or starting out with your first property, this essential combination of tools will help you identify the best deals, maximize your profits, increase your cash flow, and ultimately allow you to achieve your goals.

NeRB-J23-3