Equal and Opposite: Adversity and Opportunity

The door of conventional finance has slammed closed. At least this is the national perception. Sub prime financing has all but evaporated, and in its wake many 'want to be' buyers are again resigned to renting. Buyers have not stopped wanting to be part of the American dream, they simply see no way to do so. Sellers want to help them realize this dream, but in this "no finance" market feel just as stuck. **All of this perception sings of opportunity for the entrepreneur equipped with negotiation acumen, finance fluency, and a mind set that fuels possibility.**

Every real estate investor recognizes the value of a tool box that allows for success and profit in all economic climates. Making money during times of appreciation and in times of free flowing conventional financing does not take skill, negotiation, or fluent understanding. Such times bring people out of the woodwork declaring their stripes as a real estate investor. But today represents a time where by an understanding of finance and the ability to negotiate and hand craft intelligent terms are critical. For those who have this ability, these times represent a rare slice of opportunity.

Buying real estate to sell is as common as a Ford truck. Every investor has embraced this formula of opportunity. In these times, "SELL" is a proposition that takes forward planning and financial expertise. How do we buy to sell, when the perception of the national market says that buyers are in control? **Pre-packaging the SELL proposition with closeable finance terms for the potential buyer is the key**. This sell package is set up by the terms you negotiated when you were a buyer. How do we become the bank? Simply put…the answer lies in the terms of our acquisition.

If we were to purchase a property using bank financing, we would be obligated to pay off our lender upon the sale of that property. The "due on sale or transfer" clause, no matter our creative interpretation, binds us to cash out our underlying financing upon the sale. By definition, we are now vulnerable to the availability of new financing as a seller of this property.   More importantly, it puts us in a position of competition with most every other house on the block for sale where the buyer needs to go get a new loan to cash out the seller. If we, through the terms of our acquisition, were not obligated to cash out our underlying financing upon the sale, we have created for ourselves something distinctly different than other common offerings. When we are the loan committee, to approve or disapprove a prospective buyer, extraordinary things can happen. When we are the one writing the loan program for a prospective buyer we can employ standards and criteria that an institutional lender simply cannot and will not provide.

Another reality that speaks of opportunity to the real estate entreupneur is the low confidence this country has of alternative investment options. Where does a person with money confidently place their investment dollars today? A property owner who is successful in selling their property in this market is now left with an even greater challenge. Where do they put the money? Investment dollars have always sought return, collateral, tax sheltering and customer service. Where does this person take their net proceeds in this market? Do you think it will be put with confidence in the stock market? Does the seller, looking for return, lean toward bonds or certificate of deposits paying less than 4%? Do they consider a simple money market fund earning even less? If they have an amount greater than $100,000.00, where is the collateral or security for these invested dollars? One thing is sure, the return on investment is low, and the confidence most people have in the collateral security is even lower. Peoples trust in large institutions and over paid CEO's to manage their money is at an all time low. These realities speak of buying and private finance opportunity. As a buyer, I can provide return, collateral, tax shelter, and exceptional customer service. Properly presented, why isn't this an excellent choice for a seller or a simple investor of capital?

Involving the seller in the financing when we purchase their property solves several things from every person's perspective. As the seller, it allows for an interest income far in excess of what is being offered in other circles in today's economic reality. It also offers a full collateral picture not provided with other investment options. Properly structured, it provides indefinite capital gain tax deferral. From the buyer's perspective, the negotiation of long term fixed rate interest with no due on sale clause does two things. First it offers the buyer the opportunity to "be the bank" on the sale of this property. And second, if hold becomes the best plan, the buyer / owner will have created long term flexable financing that is far better than any conventional loan. Hand crafting financing is an art form, but done correctly mounts your portfolio on shock absorbers that can withstand the ever changing economies of time. Any finance package constructed with rigid non-flexable terms will eventually break. Building in flexibilities protects all parties on both sides of the table.

Take for example a building that I recently purchased for $1,150,000. I put $50,000. down, and the balance was in the form of a promissory note where by the seller was the beneficiary. The interest rate on the note is 5.5%, payments are interest only or more, and all outstanding principle is due the beneficiary twenty years from closing.

If the underlying note of $1,100,000. were bank financed, and I wanted or needed to sell, I would need to attract a buyer who was willing to get all new financing through some means, or write a very big check at closing. However, in that the underlying is a private note, and the note has no due on sale clause, I can sell the property without cashing out the underlying.

For example, if I sold the property for $1,300,000. I could create the following terms for my buyer. Purchase price is $1,300,000. Down payment is $200,000. (out of this down payment, I re-capitalize my $50,000. that I put down, pay my $30,000. closing costs as a seller, and walk out of escrow with $120,000. left over). Then, I would be the beneficiary of a note in the amount of $1,100,000. The rate I would charge the buyer is 7.5%. They would pay me INTEREST ONLY with the full principle due me approximately six months before my underlying is due. (approximately 19.5 years from closing) My note would be collateralized by an all inclusive trust deed on the subject property. The difference of the interest rates, what I negotiated on the buy, and what I offered on the sale is 2%. This difference amounts to $1,833. per month for 19.5 years. Over time, not compounding the intake of capitol or the principle difference that I was paid at closing; just this margin difference is in excess of $428,000.00.

Banks make money in four simple ways. Fees, margin, penalties, and servicing. Becoming a bank starts with your fluent acquisition negotiation. Think on the terms of your acquisition as creating your "cost of funds". I buy real estate all the time, where by the primary attraction is the financing, not the real estate itself. In these economic times, all the stars are lining up for the investor who has the negotiation skills, the tool box, and the mindset to capitalize…..and all the while, providing a service to sellers who are looking for a way to sell, with a good secure return on their capitol after the sale.

A common mistake un-seasoned investor's make is they assume that the seller must be in some kind of trouble to be motivated. Motivation is caused by an endless list of changing life conditions and personal realities. We don't need to flock and fight over the latest list of foreclosures, defaults, and bank REO's. Life is dynamic. People move on and chapters change**. I focus on demand real estate, not the latest troubled property**. This is a time to put properties in your long term portfolio. Part of what lands them there is the financing that you have negotiated in these times where it is perceived that conventional financing is not obtainable. Use this perception as leverage to set up your future with not only great new acquisitions, but great long term hand crafted financing.

When I founded Reach Returns, I found it on the belief that ordinary people who were committed to a fluent understanding of negotiation, finance, and the mind set of possibility could live an extraordinary life. I believe this, because it is where my commitment to these areas has landed me. This is a time that the interested will lag behind and the committed will set up the cornerstone of an amazing future. It divides the world. Those who are interested and those who are committed. I look forward to having an opportunity very soon to challenge your perception of possibility, and to give you the tools that will implement its reality into your life.

Living Deliberately,
Greg Pinneo