My Take On It……

By: Greg Pinneo

The door of conventional finance has largely 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 a "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 creates 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 times where by an understanding of finance and the ability to negotiate 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 the risky part of this proposition. How do we buy to sell, when the perception of the national market says that buyers are in control? Packaging the SELL proposition with terms that make it a financeable transaction for the buyer is the key. This package will mean that as a seller, you will need to participate in the financing in order to ensure your success as a seller. 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. More importantly, it puts us in a position of competition with 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 options for ourselves as a seller, and thus separating us from the crowd of common opportunities.

Another reality that speaks of opportunity to the real estate entreupneur is the low confidence this country has of alternative investment options. A seller who sells and is left with cash now to invest is facing a buffet of choices. Does the seller put this money in the stock market? Does the seller, looking for return, lean toward bonds or certificate of deposits? Do they consider a simple money market fund? The choices abound, but one thing is sure, the return on investment is sure to be low, and the confidence in the collateral security is questionable at best. These realities speak of buying opportunity for us as well.

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. From the buyers perspective, the negotiation of long term fixed rate interest, whereby the principle is not due upon the sale of the property offers the buyer the opportunity to "be the bank" on the sale of this property.

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, 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 income return on their capitol after the sale.

At Reach Returns we specialize in understanding the art form of negotiation, the mastery of the acquisition tool box, and the mind set of possibility that puts all things in motion. I hope some day to meet and discuss these worlds of opportunity.

Living Deliberately,
Greg Pinneo