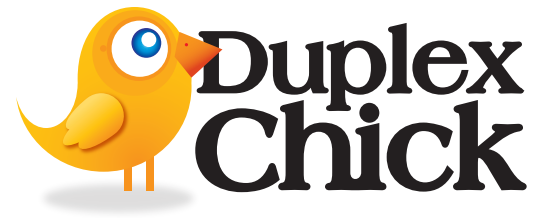


DUPLEX BUYER'S GUIDE



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For most of human history, real estate has been a good investment.

Believe it or not, with the exception of the last few years, and a couple during the Great Depression, real estate has almost always gone up in value.

Go ahead. Fact check. Ask your grandparents what they paid for their house. Then estimate what it's worth now.

Odds are it's worth much more than they originally paid for it; much, much more.

And if you press further and ask how they paid for it, chances are they'll say with the money they earned from their jobs.

In other words, **THEY** paid for it.

Wouldn't that house have been an even better investment if someone else paid for some or all of it?

Of course. That's why you're here.

If you're considering investing in real estate, whether it's a single family home, duplex, triplex, apartment building or even land, planning for success isn't complicated.

There are simply specific, measured steps those who travelled before you marked, and if you follow in their footsteps, you're sure to enjoy the benefits of a long, successful real estate investment career.



Know Your Goals

When I sit down for a strategy meeting with a new client, the first thing I ask him or her is what their goals are.

Most have the same answer. "Cash flow".

This response always prompts me to rephrase the question.

When you're 70, and you look back on your life, what are you hoping buying investment property will have done for you?

Unfortunately, most of us look at goal setting in the near term. For example, we start running daily so we can run in a marathon next spring. Or we go on a diet so we look good for an upcoming high school reunion.

However, when it comes to real estate investment, it's critical to consider our ultimate end goal, then work backwards from that future point in time, developing a plan of exactly how we're going to arrive at our destination.

For example, if your intention is to own a big apartment complex handled by a professional management company, generating thousands of dollars a month in positive cash flow in your retirement, where will the down payment from that property come from?

On the other hand, if you're already near retirement, immediate cash flow may in fact be your priority, and it will be important to focus on finding a property that immediately gives you a maximum return on your investment.

No matter your circumstances, having a clear vision of an end result will help, and those you enlist to help you achieve those goals, develop a clear vision and course of action.

Know How Much You Can Afford Before You Go Shopping

It is never too early in the process to speak with a mortgage broker or banker to learn whether or not you qualify for a loan, and what the limits of that mortgage might be.

This is important for a number of reasons.

First, the loan officer will pull your credit. This gives you a chance to see if there is anything incorrect on your credit report, or, if there's an ancient bill from that great deal of a gym membership you bought right after college, still lingering on and impacting your credit.

Discovering these errors and oversights gives you the opportunity to address and repair inaccuracies and clean up past wreckage. As a result, you may improve your credit score (which usually results in better terms on a mortgage).

Speaking with the loan officer early will help establish how much property you can afford, the amount of down payment you'll need, and the kind of rental income a property must generate in order to satisfy lending criteria.

Find A Realtor Who Specializes In Investment Property

Attorneys specialize.

When you want to protect your latest invention from being stolen, you contact a patent attorney. When you want to end a bad relationship, you call a divorce attorney.

Doctors specialize.

When you want to have a baby, you ask your friends for the name of the best obstetrician they know. And when you want to run in a marathon but are bothered by a nagging injury, you might find a doctor who focuses on sports medicine.

Believe it or not, Realtors specialize too.

Some focus their attention on the residential market. (And not even all of those agents sell exactly the same kind of property.)

Others focus on a specific city, suburb, or neighborhood. Some help first time home buyers understand the process.

Realtors who focus their energy in the commercial sector may sell strip malls, large apartment buildings, or industrial sites.

All of them complete the same basic education in order to earn a real estate license. It's the education they obtain afterward that furthers their knowledge of a specific niche, both in the classroom and through hands-on application in the field.

It is this specialized knowledge that you're looking for when acquiring a duplex or investment property; whether it's your first one or your tenth.

Before you select a Realtor to work with, do some research. Ask duplex owners or other real estate investors for recommendations. If you use the Internet to locate a real estate agent, be sure to include terms like duplex or investment property specialist.

Start With The End In Mind

In one of your first conversations with the Realtor you select, it's important you share with them your short and long term goals.

For example, if you're buying a duplex as your first home, you should have an idea of what you want your share of the "rent" or mortgage payment to be. While it's nice to fantasize about your tenant paying all the bills and you living for free, a more realistic view is one in which you pay for repairs or improvements, property taxes, and most likely a portion of the mortgage.

For instance, if you want to contribute no more than \$500 a month in "rent" to yourself, know that before you look at and fall in love with a property you can't afford.

If there's an architectural style or era you like, sharing that information with your agent will quickly help her focus on scouting for neighborhoods where those styles of homes and duplexes are located.

Regardless of location or style, remember, the numbers – rent, cash flow, mortgage payment, and so forth, should work before you purchase **any** property. You should **never, ever predict or buy for appreciation.**

Having said that, investors near the start or in the prime of their professional careers may find selecting a neighborhood that has a historical track record of maintaining and even going up in value, may, over the long haul, greater hope for greater amounts of equity, and therefore be willing to accept less in immediate cash flow.

Prior to investing, you may also want to consult with a real estate attorney and tax advisor as to the advantages of holding title for your rental property in an LLC. Many seasoned investors choose to do this as an added layer of protection. The thinking goes that if you have an LLC that owns the property, if someone is injured on the premises and pursues legal recourse, the most they could potentially win in damages are the assets of the specific LLC.

Having an LLC will also allow you to open a separate checking account specifically for your duplex rental business. Among other things, this helps greatly when it comes to bookkeeping.

Do The Numbers Before You Look

If you've selected an experienced and qualified Realtor to help in your hunt for a duplex, chances are you won't look at many properties.

The reason for this is simple. Your agent won't take you out to look at duplexes that don't fit your short and long term goals.



Your Realtor should be able to recognize a value and provide you with an income property analysis worksheet or pro forma demonstrating a property's cash flow, principal reduction and tax benefits; either before you look at the duplex, or upon your arrival at the property.

The work sheet should contain realistic calculations for property taxes, maintenance, insurance, utilities and vacancies, as well as mortgage payments. (We've all seen properties advertised as having cash flow, but when we look at the seller's numbers, realized he or she forgot the part about paying for the property!)

And if you're planning on being an owner occupant, your agent may want to ask the listing agent what the length and terms of tenant's leases are. After all, tenants are protected by their leases, and you may discover you wouldn't be able to move in for months.

When you've finally found duplexes that fit your criteria, try to remember that while it is important to offer a clean, well-maintained rental unit, most rental units and many tenants don't have the same standards a single family homeowner might.

However, also be aware that tenants and homeowners are often attracted to similar amenities. If you're looking at a duplex from the early part of the twentieth century, for example, you might want to look for original charm and character, woodwork, and built-ins. This "charm" may help you attract tenants. In newer properties, on the other hand, you might want to note whether or not there's a dishwasher, ample closet space and a garage.

Learn to look past scattered laundry, dishes in the sink, or last night's pizza on the coffee table. Instead, look for damage to the ceiling, leaking faucets, or loose tile in the bathroom that may have resulted in water getting into walls. Be sure to check for ample electrical service to each unit, and whether or not there are separate meters for utilities, as well as a house meter for common areas.

Your Realtor should also be able to point out areas of concern that may warrant further investigation by a qualified inspector or licensed tradesman. A duplex that needs repairs or improvements isn't necessarily a bad investment. You must simply include the cost of those fixes in your acquisition costs, and base your income analysis on those final figures.

If the tenants are home, you might want to ask them how they like living there, and whether or not they've had any issues with the duplex.

Explore the neighborhood. Try to determine its personality and what attracts people to living there. Is it someplace you would like to live if you were looking for a rental? Would access to public transportation be important? Parks? Grocery stores?

To be certain a neighborhood is a good fit, you may also want to call the local police precinct and ask about criminal activity in the area. A quick check online of a national or state website that identifies whether any registered sex offenders are living in the area can offer you additional insight is also wise.

For the most part, drafting a purchase agreement on a duplex or small investment property is like writing an offer on a single family home.

However, an experienced agent will know there's one very big exception; the purchase agreement must contain an addendum that asks the seller to assign you rents, leases, and security deposits at closing, as well as provide you with copies of those leases and any other service agreements they may have in place prior to closing.

Most single family home buyers try to schedule their closing date as close to the end of the month as possible in order to save on the amount of interest. Duplex buyers, however, who are purchasing occupied units, may want to consider closing early in the month. While this may cost you a bit more in interest, it will also help you start a bit of a nest egg when you receive pro-rated rents for the month at closing, as well as collect rent for the month after, prior to having your first mortgage payment due.

If you're planning on living in the duplex and need the seller to notify a tenant who isn't on a long term lease to vacate, expect him or her to resist doing so until just before closing. After all, if for some reason you are unable to obtain financing, he doesn't want to be left with a vacancy and subsequent loss of revenue.

Make sure you see all leases and other service agreements during your inspection or due diligence period. Cross check that the rents and terms of the leases match what was advertised in the property listing. If the numbers are lower than those you were

told, you may be able to negotiate for a better purchase price. And if they are higher, the property is an even better deal than you thought!

It is also a good idea to have your Realtor request a copy of the seller's Schedule E from their tax returns. This reporting of income and expenses is likely to provide you with an accurate record of



true expenses and income.

Even if the tenants pay utilities, call the company that provides service for gas, electric and water so you have an understanding of how much tenants are paying. This will help you charge fair rent down the road, as well as prepare you in case you have a vacancy and become responsible for the monthly bill.

When you and the seller have come to a meeting of the minds on price and terms, it's a good idea to have a professional inspection. If you don't already know a great inspector, chances are your Realtor can give you several names of qualified professionals.

An inspection may cost several hundred dollars, but it's money well spent. Make sure the inspector you hire can and will perform a carbon monoxide test on the furnace or boiler, and that he or she gets up on the roof to determine age and condition. Skipping this step and finding out after closing there aren't any shingles will cost you not only the opportunity to negotiate the repairs with the seller, but the cost of them as well!

Closing

Before you close on the duplex, you and your agent should make sure to go check on it just before you sign all of the documents. This gives you chance to verify the property is in the same condition it was when you wrote the offer and did your inspection, and that any and all personal items included in the purchase agreement are still on the premises.

At closing (close of escrow), it's important to get all keys to the property, leases, security deposits and



pro-rated rents. Ask the seller anything you'd like to know about the duplex, and make sure you get his or her telephone number so in the event you have a question, you have a number to call.

While it may seem obvious, don't forget to introduce yourself to the tenants prior to or after closing. Be sure to provide them, in writing, notification of who they should make their monthly rent checks out to and where they should be sent.

And if you have a vacancy, please, please, please, don't go crazy rehabbing it until you have a good idea of how much additional rent those improvements will generate!

For example, clean and updated duplexes and apartments are important. Fresh paint, new light switch covers, updated cabinet hardware, clean carpet and fresh caulk around the bathtub are inexpensive improvements that help a vacancy fill quickly and for more rent

However, repositioning a bathtub simply because you don't like where it's at will not only cost you a fortune, but also won't generate one single dollar more in rental income.

Forms

Gather all of the forms you will need for being a landlord in your area. Laws vary from state to state, so if you're looking online, be sure the document you use conforms to state and county regulations.

It is crucial that you become familiar with your state and local laws regarding tenants' rights, your restrictions in terms of accessing the property, and proper eviction procedures. For example, find out whether late fees are legal in your area, and if so, make sure they are part of your lease and enforce them.

Are you required by law to give 24 hour notice to a tenant before visiting the property? Make sure you include that information in your lease, and discuss it with your tenant when they sign it.

While your Realtor is an invaluable resource for referrals after you purchase your duplex, a local landlord's association or investment club may also be

a beneficial resource in terms of advice, copies of leases, building maintenance referrals and recommendations for legal counsel.

Vacancies

Odds are you will have a vacancy at some point in your career as an investment property owner. When you do, don't panic. Simply work as quickly and efficiently as you can to fill it.

When the previous tenant leaves, odds are local laws require that you refund his or her damage deposit within a short amount of time. If you make deductions for damages, you will also likely be required to supply the former resident with a receipt for the cost of repairs or replacements.

Remember, the longer the unit is vacant, the more money you lose. Be ready to clean, paint, and have carpets and floors scrubbed the minute the tenant moves out. Leave no detail undone. Clean and neat will rent far more quickly than fancy and filthy. If your time is short, hire a professional cleaning crew to do it for you; they are worth the cost if it means you can rent the unit tomorrow rather than a month from now.

Take plenty of pictures of the unit with a good digital camera when it's ready to rent. Use these on free web classified services like Craigslist. Prior to listing the property, you may also want to quickly scour ads for rentals in your area to make sure you don't charge more than what the market will bear. In fact, a great strategy for renting a unit quickly and keeping it full is to simply price your unit slightly under what your competition is charging!

Many landlords have also found that in spite of all of the technology at our fingertips, an inexpensive "For Rent" sign purchased at the local hardware store and placed in the front yard is effective.

Once you have someone interested in renting the property, have them fill out an application. You may also want to charge an application fee. Again, it is important to know what your local restrictions are on those fees. Many states not only limit the amount to your actual costs in doing a credit and criminal background check, but restrict you to collecting one application fee at a time, and refunding any unused portions.

There are a number of excellent credit and criminal background check services online. Again, for recommendations, ask your Realtor or local investment property resources.

Every property owner has their tolerances in terms of credit and criminal issues that appear on reports. Some landlords turn away any tenant with past credit issues. In coming years, this may prove

increasingly difficult as more and more applicants are people who have lost their homes to foreclosure.

In my experience, if a prospective tenant told me in advance what their credit issues were in the past and what they were doing or had done to correct them, and it matched what the report reflected, I considered their application. However, I did do further investigation, like calling their previous two landlords and their employer to check their work history.

However, you must decide what's right for you. This is true of criminal history as well. You may want to run a full national criminal background check on your applicant, as well as consult the national registered sex offender database and make your decision on what you find there.

It's important to know that Federal Fair Housing Laws state you cannot refuse to rent to anyone based on their faith, race, national origin, sex, disability or familial status. Some states, like Minnesota, also prohibit you from discriminating against an applicant due to their creed, marital status, sexual orientation, or public assistance status.

If you reject an applicant, you must clearly tell them in writing why; whether it was credit issues, a poor reference, or previous criminal activity.

Once you've found the perfect tenant, be sure to go through your lease thoroughly with them. If you have a no smoking policy, point that out in the lease. If there's a limit to how long guests can stay, be sure to mention that too.

Please remind tenants they are responsible for insuring the contents of their home. Many of the major national insurance companies offer renters policies, and you should suggest they explore their options.

Tenants often believe their security deposit is their last month's rent. Make sure you make the distinction. In fact, you may want to have a security deposit amount that's different from the monthly lease amount, simply to help distinguish them further.

You may want to have a move-in checklist ready for the tenant. Go through the unit thoroughly with them, having them point out any damages they see to the unit. When it's completed, give them a copy and put one in your file. You can pull it out if they move, and it will be difficult for them to argue that any new damage was there when they moved in.

Tenant Relationships

Remember, your tenants are not only buying you a building, but they're also helping you secure your financial future. Having good relationships with

them can go a long way toward eliminating rental challenges. Simply gestures like greeting them by name, or sending holiday cards and gift certificates can help bolster tenant loyalty.

However, it is also critical to remember you are running a business. To that end, have good boundaries. Tenants often become friends, and when they do, they occasionally ask for improvements that are neither necessary nor in the budget. Know what's important for health and safety and always remember, the word "no" is a complete sentence.

On rare occasion, tenants who are "friends" will exploit your relationship, seeing it as a free pass when it comes to paying rent on time or paying at all.

This not only impacts your cash flow, but can cause financial hardship as well. Over the years, I've known several duplex owners whose tenants suffered employment or medical misfortunes. Because they were kind, the landlords tried to help by being understanding and patient for rent payment. Ultimately, continued promises to pay never materialized, which eventually resulted in the landlord falling behind in mortgage payments and facing losing the property to foreclosure.

Be sure to keep current on your leases. If they lapse, you may find yourself with a vacancy during the worst possible months for your market. And if you've forgotten to renew it, remember, leases don't have to go for even increments like six months or a year. If having a five or seven month lease would put you back on track for any vacancy to occur during the peak rental season, there is nothing stopping you from doing just that!

Evictions

If you've been thorough with your background and credit checks, odds are you may never have to evict a tenant. However, if it happens, bear in mind that legal proceedings vary from state to state, so it's important you know local laws.

Regardless of your location, thorough and accurate records of notifications and missed payments will prove invaluable to your case, whether you choose to handle the eviction yourself or through legal counsel.

No matter what, it's always a good idea to have the name and number of a trusted real estate attorney among your contacts. They can be an incredible resource.

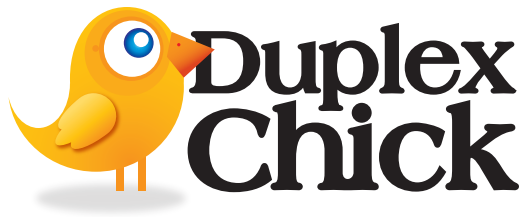


A Duplex Investment Will Change Your Life

You may encounter challenges along the way, but if you do, try to keep your focus on your end goal; a secure financial future for you and your family.

Real estate is a great way to do exactly that.

Just ask your grandparents.



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