

# **The Insider's Guide to Selling Real Estate**

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## INTRODUCTION

The goal of this ebook is to help you discover some of the **secrets** in real estate that the average person is not aware of. Knowing these secrets – or tricks – or inside scoop – *whatever* you want to call it, will give you that edge and turn you into a smart investor.

You see, real estate is one activity where curiosity does NOT kill the cat. The more you're curious about the business of selling and buying property, the better will be your grasp of the mysteries that only a select few have unravelled through their diligence and hard work. Many of them will not share these mysteries with you...because they're worried that you might cut into their slice of the profit pie.

*Untold* fortunes have been made in real estate; it would not be surprising if during the last 5-7 years, some ordinary mortals have become instant millionaires, thanks to the feverish upswing in the industry.

The world of real estate has changed; people are now considering going into it as one of the sure fire ways to a golden future.

So...we ask: how do they do it?

For a few, it's *sheer luck*, given the recent real estate boom; for most others, however, it's that they have **legal inside knowledge** – the kind that *outsiders* are not privy to. Success coaches and motivators will tell you that to be successful in any endeavour – real estate included – you must get the **TOTAL** picture, not just half of it. You must get to know the **TWO SIDES OF THE COIN**, and discover a hidden third side, if there's one.

This **insider's guide to selling real estate** ebook therefore provides guiding principles that you can tap to your advantage.

You'll get the whole piece of pie, not just a half-baked tart (no pun intended), the two to three sides of the coin, or both ends of the spectrum, if you will.

So we searched far and wide to get into the minds of not only sellers but also buyers and real estate brokers. We'll also throw in some facts on the financing options in real estate.

This ebook is organized into five sections:

- **Section 1: Know your Buyers**
- **Section 2: From Agent/Broker to Real Estate Professional**
- **Section 3: On the Prowl for the Hot Shots (valuable properties)**
- **Section 4: Mistakes Sellers Often Commit**
- **Section 5: Financing**

You can, if you wish, read this ebook from cover to cover; and for some readers, this will be the most valuable approach.

However, if you're already a little real estate *savvy*, you can easily jump to a particular category and glean the wisdom that you're currently lacking. Furthermore, long after you've finished reading this ebook (or reading sections that are relevant to your needs), this ebook will serve you as an *invaluable* reference tool.

We've searched **behind the hype** to uncover the guiding principles that drive success in real estate selling.

Remember, please: markets boom and wane; certain types of properties (such as condos) can be hot one year, while rental properties can be hot in another. From a distance, real estate is one of the most dynamic and changing fields there is.

Yet inside that change is a core *wisdom* that remains constant. Successful real estate sellers, from the millionaire in the car next to you as you drive, to Donald Trump, **know what these principles are.**

And by the time you've finished reading this ebook, you'll know them too. And while, yes, the markets will always change, you'll be confident, calm, focused, and it is our hope and expectation: financially successful!



## PART 1: KNOW YOUR BUYERS!

As you know, aside from food and clothing, shelter is a fundamental need. People need a roof over their heads, a place they can call home.

Now, this may seem like obvious information and not important for us to think about, but really, it's a *very* important thing to be aware of as you sell your real estate. Why?

Because this awareness points to one essential fact that should give you an ENORMOUS amount of confidence; especially if this is going to be your very first (of many!) real estate sales transactions: there will always be people looking for houses, regardless of whether we live in good times or bad. **Knowing the types of buyers in the market will help your position as a seller!**

### ***The Buyer Pool***

So who are these buyers that are poised to do business with you? They are people in your *buyer pool*. The phrase "buyer pool" refers to those people who are interested in buying a

certain piece of property in a certain location at a certain price. This is the group that you, as a seller, should focus on. The buyer pool is different from the bunch of mere onlookers or “prowlers” who like to spend Sunday afternoons looking into the homes of other people.

As you gain experience in this field, you’ll almost instantly be able to tell the genuine buyers from the speculators (or the people who are just bored and like looking at real estate...and yes, there are some of them out there).

Bill Effros, in his great book *How to Sell Your Home in 5 Days*, says the profile of a buyer pool will **change** constantly. Some buyers may decide eventually to purchase a home elsewhere, some get frustrated and leave the pool; still others decide they want to buy and therefore stay in the pool.<sup>1</sup>

The buyer pool is made up of different types of buyers – bear in mind that some buyers are looking for homes NOT to live in, but to invest in. You will typically encounter a mix of the following types of buyers:

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<sup>1</sup> Bill Effros. *How to Sell Your Home in 5 Days*. Workman Publishing, New York, 1998.

- **End buyers:** buyers who will live in the home.
- **Professional buyers** – these include real estate brokers, builders who want to develop real estate in your location, speculators (quick cash wheelers and dealers) and developers looking to buy strictly for the land value. Effros says not to be afraid of professional buyers. If circumstances warrant, they could offer the best price for your house, given their cash reserves.
- **Cash buyers** – this is the group to whom you can consider giving a discount because you do away with the lending and mortgage nitty gritty that could take weeks, even months. Cash is king, so flexibility in negotiating price is not a bad idea.
- **Mortgage buyers** – since majority of people can't buy homes for cash, they borrow the funds to acquire possession of a piece of property. They fall into two groups:
  1. the pre-qualified ones (those who have started the process and have discussed preliminary details with the bank);

2. pre-approved mortgage buyers (the bank has made a commitment to lend them a specific amount of money under certain terms and conditions).<sup>2</sup>

### ***The Buyer's Perspective***

Selling your house quickly and successfully requires that you see a piece of property through a "*buyer's eyes*". How do you do this? Well, put yourself in the buyer's shoes. What does he/she see about your house that you haven't noticed yourself?

One real estate broker said that a trick she's learned in getting sellers to think "out of the box" is to take them across the street from their house, and then asks them to give their house a long hard look, and spot things they've never noticed before.

When this exercise is done, she then takes them on a detailed tour of their house: front yard, back yard, side alleys, garage, bathrooms, the whole look-see. This way,

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<sup>2</sup> Bill Effros. *How to Sell Your Home in 5 Days*. Workman Publishing, New York, 1998.

they come up with a list of repair jobs that need to be done before they can even think of putting their house on the market.

### ***What Buyer's Look For***

What do buyers look for in terms of the house itself? Many agree that location is a decisive factor, but so are tangibles like the price and condition of the property (is the price worth the additional huge sums of money to put this house back into mint condition? How much time will I need to renovate the dilapidated portions of this house?). Buyers will be on the alert for the following:

Start with the **outside** of the house and ask yourself the following questions – because these are the questions that your potential buyer will be asking!:

- ⇒ Do these garbage cans, discarded wood scraps and building materials strewn about carelessly an indication of the seller's negligence?
- ⇒ Are the gutters and roof in place? When was the last time the seller changed the roof?

- ⇒ Apart from the human occupants of the house, are there termites and other insects that live here also?
- ⇒ These overgrown bushes and trees are distracting. What is it that the sellers don't want us to see?
- ⇒ Is the lawn looking unhealthy? Is the rest of the house like that?
- ⇒ Have the patios and decks been converted into storage areas? Why can't we see what they actually look like?
- ⇒ The paint is peeling off; is that why the house looks so drab and uninviting?
- ⇒ Why are there no lights outside the house? Is this the owner's way of saving on utility bills? Is this a safe neighbourhood?

The above questions are just a few of the many questions buyers are likely to ask with respect to the outside of the house. A house's exterior constitutes the buyer's first impression. And we all know what they say about first

impressions – they are powerful and outweigh other considerations!<sup>3</sup>

Now let's look at the **inside** the house: what are buyers looking at?

Barb Schwarz advises sellers to be guided by the 3 C's in real estate:

1. cleanliness
2. clutter
3. color

These three are self-explanatory, yet many sellers overlook the fact that buyers have fixed ideas about what makes a house clean, bright and uncluttered. Don't take clutter for granted. **Clutter is a big turnoff.** Too many objects lying around the house collect dust, and when you have an open house and the sun is streaking in through those large windows, the dust becomes very conspicuous.

Schwarz explains: "Clutter makes it difficult for a purchaser to mentally move into a home". This means that purchasers

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<sup>3</sup> Barb Schwarz. How to List Residential Estate Successfully. Prentice Hall, New Jersey. 1991.

have a hard time imagining where their sofas and entertainment centers will be placed because the clutter is hampering visualization.

This is what Schwarz tells her clients: “the way you live in a home and the way you sell a home are two different things”. This is just her way of saying that some clutter does give a home a lived-in feeling, but too much is too much and makes buyers very, very nervous.

### ***Respect Your Buyers' Intelligence!***

**Never** underestimate the intelligence of buyers even if they strike you as inexperienced, first time buyers. Since governments have stepped into the domain of real estate, they are now warning home buyers about potential environmental dangers lurking inside houses. So what aspects of home buying are governed by regulations? Ilyce Glink warns that most professional house inspectors are not qualified to do special tests for toxic substances, although more and more individuals are specializing in these types of home testing.<sup>4</sup>

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<sup>4</sup> Ilyce R. Glink. 100 Questions Every Home Seller Should Ask. Times Books (Random House). USA. 1995.



- **Radon** – the US government reported in 1989 that radon was the cause of 22,000 deaths per year and that it is the second leading cause of lung cancer in the US after cigarette smoking. Radon is an odourless, natural gas that comes from the earth and seeps through cracks in the house or its foundation.
- **Asbestos** – Glink says that if your home was built after 1980, there is no need to worry about asbestos. This is a microscopic fiber that escapes to the air and is ingested by humans through their noses and mouths. Buyers who have lingering fears about asbestos may demand a written report stating that the house is asbestos-free.
- **Lead** – Paints and water can contain high levels of lead that are harmful, particularly to children. Their physical and mental development is affected when they are exposed to this substance. Lead paint and lead in water are usually found in older homes (pre 70's). Pipes in older homes for example that were soldered together with lead can transmit lead particles into the water system.

## **PART 2: FROM REAL ESTATE BROKER/AGENT TO REAL ESTATE PROFESSIONAL**

If your goal is to sell your house at **well over** the price you asked for and for the whole transaction to be hassle-free from A to Z, then perhaps you should start **thinking** like a real estate broker or agent.

During times when the real market is rollicking to new, unimaginable heights, and you hear of brokers pocketing enormous amounts of commissions and fees making them millionaires overnight, you'd like to know, deep down in your heart, what makes them tick. This new crop of wealth builders is making everyone envious, including you.

And here you are – all you really want is to learn the tricks to sell your house **successfully**. Learn from the pros. What makes the pros stand out and the mediocre drop out later in the game? Get inside the mind of the real estate professional and think like him. Who knows, after you do sell your house successfully, you may decide to be a broker yourself, having learned the pitfalls and felt the glory of just this one deal.

Tom Hopkins talks about the true professionals:

**“Professionals are highly goal-oriented. They strive for a certain number of homes listed and sold each month, a certain income, a trophy, or an award. They know exactly what they’re looking for and when they’ll achieve it...you see, the successful ones, the true professionals, begin where the failures stop. They do what the failures are afraid or too lazy to do.”<sup>5</sup>**

### ***Attitude is Everything!***

A positive attitude tops the list of characteristics that real estate professionals live by. When the world comes crumbling down, as in a depressed real estate cycle, they look at downturns as an opportunity and maximise on that opportunity.

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<sup>5</sup> Tom Hopkins, Mastering the Art of Selling Real Estate. Penguin Group. USA. 2004.

Professionals make every effort to let their image speak for their success: The trappings of success must convey your competence in the field. Do your car, briefcase, desk and office communicate a successful business career?

Professionals have an organised and efficient follow-up system. Their success at closing deals depends on returning calls, prioritizing appointments, punctuality and integrity. This is the only way people will entrust the sale of their homes to them. The client's comfort level is important to a professional - an element he never takes for granted.

A real estate professional stays in tune. He reads the classified ads religiously, and makes it his business to know what's going on. His networking skills are above average, he attends the latest seminars, nurtures close relationships with people who are directly or indirectly connected to the real estate industry:

- Contractors
  - Builders
  - Developers
  - Bankers
- insurance companies
- settlement agents

- trustees
- other brokers

Reach out and see people. Hopkins says: "There are literally thousands of people in your area who need and deserve professional assistance with their real estate needs. If you don't take it to them, they might be short-changed by someone less professional. The more people you can meet, the more you can serve."<sup>6</sup>

### ***The Steps to Being a Professional***

Successful real estate selling is based on being well-informed about the hidden strategies of the trade. If you do decide that you want to be a real estate professional – a profession that will most likely bring you into the inner sanctum of the cult, how do you get started?

Apart from taking the usual course and getting licensed, Tom Hopkins believes you should take the following steps:

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<sup>6</sup> Tom Hopkins.

- ✓ Have a professional photograph taken. Clients like to put a face to the name, especially the person they picked to sell their house.
- ✓ Get a cell phone with voice mail. This is indispensable, if you want to return calls promptly.
- ✓ Purchase a good computer with a high processor capacity, and get your hands on software such as ACT!, Goldmine or Top Producer.
- ✓ Get email. Who doesn't need an email address these days? Surveys show that less than 6% of real estate agents with email check their mail twice a day. Be ahead of the pack.
- ✓ Get Internet – be familiar with thousands of resources dedicated to the real estate industry: industry news, training opportunities, public records, lead generation, etc. Be sure you have Mapquest (you don't want to waste time figuring out how to get to a particular address).

- ✓ Have a digital camera handy. You'll want to produce quality photographs of the properties you're selling. And don't forget to have business cards printed.

### ***About Doubts...***

Some individuals have doubts about a real estate professional's competence when they're just starting out. Experience is, after all, the old reliable – in any profession, not just in real estate.

But the true, beginning professionals don't let this long-held belief discourage them. They are usually able to demonstrate, quite skilfully, that they are the hungriest and the most willing to do whatever it takes to sell a house.

Enthusiasm and zeal go a long way – two traits that older professionals sometimes take for granted because they've been in the business long enough to develop a subtle smugness.

## **SECTION 3: ON THE PROWL FOR HOT PROPERTIES!**

“Hot shots” is the name given to jackpot properties that every person who dabbles in real estate part time or full time watches out for. They keep their eyes and ears open to potential deals and jump at the first opportunity as soon as they know that the jackpot property is in the market. Their gut instincts tell them that this property will generate handsome dividends if the deal is handled properly.

### ***Separating the Good from the Bad***

Being able to discern the difference between a good and bad piece of property usually comes with insider knowledge and long years of active duty in the real estate battlefield. One writer calls real estate an emotional business. One manifestation of this is that buyers are easily swayed by the appearance of the building or its fantastic location.

But Tyler Hicks says that “buying the wrong real estate...can be a mistake. You really won’t be penalized for life. But you may have a few years of tight money. That’s why it’s



important that *every* piece of real estate you buy be a good 'fit' for you."<sup>7</sup>

### ***Finding Hot Properties***

Be on the lookout for re-negotiated real estate deals, what Tyler calls the "**real estate workouts**". These are deals where lenders, so as not to foreclose on a property, extend the term of the mortgage loan so that monthly payments and terms are easier for individuals. This is how the real estate pros lay their hands on properties about to be foreclosed because the property is being sold below market price.

Want to have fun and get educated at the same time? Attend local **property auctions**. This is more for networking purposes and to get potential leads from others who make it a business to attend these auctions religiously. If one leading broker likes you, he/she may steer you to the right deals.

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<sup>7</sup> Tyler G. Hicks. How to Make Big Money in Real Estate in the Tighter, Tougher 90's Market. Prentice Hall. USA. 1992.

Keep a roving eye on **government assistance programs**, specifically those geared towards affordable housing programs for seniors and low income families. As governments become more sensitive to the needs of aging populations, they establish housing priorities for those in most need.

Remember that populations everywhere are aging! Seniors will be in a better position to demand more services, and housing is a top priority. Real estate professionals turn these opportunities into a gold mine because of easier financing terms.

Another technique for zeroing in on jackpot properties is to explore **tax foreclosure certificates**. This is a good way of making money from good properties without actually owning the real estate. These certificates can be bought from local tax authorities for properties on which owners have not paid property taxes.

Hicks points out, "Once you own one of these low-cost certificates, you have the right to wheel and deal to sell the property to others, take it over, or otherwise make money

from it. It's another way to move in on jackpot properties with small cash outlays that can make you rich – soon!"<sup>8</sup>

Read your newspaper everyday and look for bargains. When sellers are on the point of giving up, they transfer their ad from the national paper to the community paper, as a last ditch effort. This is another area where you can tap another hot shot.

### ***Leasing instead of Selling...***

Lease with option to buy: a lease option has a longer term than a straight option, usually running for as long as one year or longer. Some will even stretch to three years, depending on the whim of the seller. While your lease is ongoing, you can rent out the property and be in a positive cash flow. The second advantage is, the property is appreciating in value. If you have a long lease option, you can then sell the property for the highest price you can obtain.

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<sup>8</sup> Tyler Hicks.

One last strategy for hot picks: be on the alert for long leases. Long leases will ensure that a property will be rented or leased for long periods of time, not just a year. Some commercial leases for example go for as long as 5 or 10 years. One example is the government. Take post offices as the best illustration. The government will usually rent space for post offices on a long term basis. If the property you are eyeing has government outlets like the post office, the automobile insurance board or the government-sponsored health centres, these buildings qualify as hot property!

### ***LOCATION!***

You've heard about the three principal parameters in real estate? One - location, two - location, and three - location. Take that with a capital "L". One trick in looking for that pot of gold at the end of the rainbow is to buy the worst property in the best neighbourhood, NOT the best property in the worst neighbourhood.

This is a cardinal rule that sophisticated investors try never to break. Robert Allen gets the message across:

**“If you buy the worst property in the best neighbourhood, at least you have the chance to upgrade the property to match the standards of the neighbourhood, and your property value will increase. In a bad area, your property will only decline in value along with the rest of the neighbourhood. Remember, you’re buying a neighbourhood, not just a property.”<sup>9</sup>**

### ***A Model of Selling Success***

Robert Allen’s concentric circle theory makes for intelligent hunting for hot properties. The circle has a small circle in the middle called the “center.”

The circles around it are identified as A, B, C, and D – A being closest to the center. The theory works this way: compare real estate to student housing. The nearer the student apartment is to campus, the higher the rent is and

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<sup>9</sup> Robert G. Allen. *Nothing Down for the 90’s*. Simon & Schuster. New York. 1990.

the lower the turnover is. That student apartment therefore – being in circle A is a good investment. The same applies to houses. Which neighbourhoods are nearer to centers of employment, education, shopping and conveniences? Try to hunt for properties in the A circle, and avoid those in the D area.

### ***Introducing the Don't Wanters***

Don't-wanters are people who will give anything to sell their property, to be rid of it completely, and who cross their fingers every minute hoping a seller will buy their property. Because of this, they can be flexible as you want them to be. How many of them are don't-wanters? "Even in extremely tight sellers' markets, there are still plenty of don't-wanters. Perhaps 5% of all sellers are willing to be flexible enough to be called don't-wanters. Some new investors get discouraged early because they haven't learned that 95% of the sellers are not flexible. They need to be dealing with the 5% who are don't-wanters."<sup>10</sup>

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<sup>10</sup> Robert G. Allen.

## SECTION 4: COMMON SELLING MISTAKES

Here's some very useful advice: **don't treat your real estate agent as Mr. or Ms. Know it All.** They are not infallible!

Believe it or not, they don't know everything there is to know about real estate. They make mistakes, just like everyone. When an agent tells you to wait because your property will probably not sell these days, take her/his word with a grain of salt. Question motives!

- Is she/he trying to get you to lower your price so she/he can sell it much quicker, thus pocketing the commission quicker?
- Is she/he concentrating on other higher priced homes in the area and hence has no time for you?

Sellers often make the mistake of believing their agents. One such seller was so disgusted because she/he allowed the agent to let her take her house off the listing. The agent kept telling her to wait some more. Three years later, her

property was still unsold, and in her frustration, decided to go with another agent.

### ***Investigate Credentials***

Once you've signed a contract with an agent that the house is exclusively hers to sell, you could be stuck with an inefficient agent for a long time. Before you sign on the dotted line, investigate your agent's credentials.

Ask for the names of other sellers she's worked for, and where possible, speak to these past clients and ask them whether or not they were satisfied with her service. Check out qualifications, licence and board certifications. Some sellers make the mistake of engaging the services of an agent in a hurry because they're eager to sell.

As Gregory Lerch stressed, hire a real estate like you would an attorney or accountant. Try to distinguish the full time professionals from the part-timers – those who occasionally



dabble in real estate, who get into the business of selling homes only when they need quick cash.<sup>11</sup>

### ***Have Reports In-Hand***

Another mistake sellers make is not having written inspection reports to show to prospective buyers. The regulations about asbestos, radon and lead are fairly stringent and must follow governmental guidelines. Ensure that professional house inspectors have the capability – and certification – to do these tests.

### ***Know the Rules...***

Sellers often decide to go solo without enlisting the help of an agent for the sole purpose of being able to save thousands of thousands in agent's commissions. This is a legitimate reason.

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<sup>11</sup> Gregory Lerch. How to Sell Your Home When Homes Aren't Selling. Betterway Publications, Inc. Virginia, USA. 1991.

If you do decide to sell your house on your own, make sure you know the rules of the game like the back of your hand. Have it down pat.

**The second, even bigger mistake, is that some sellers don't have the ability and understanding to know when to quit as independent sellers!**

If your house is still in the market for a year, even if other homes are selling like hotcakes in the neighbourhood, then it's time to take a step back and see what you're doing wrong. A real estate agent may be your alternative.

According to Lerch, "market studies have shown that you can actually lose money when your home sits on the market for an extended period. Knowing that, your goal should be either to learn how to extend your optimum selling period or market your home so it sells within the time limits the market has dictated".<sup>12</sup>

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<sup>12</sup> Gregory Lerch.

### ***Be Zone Conscious***

If you don't keep up with your city hall urban planners and engineers, you could be selling your house just before zoning adjustments are being implemented. These zoning adjustments could considerably increase the value of your property. Haste makes waste, they say. So keep your eyes and ears tuned to municipal changes that could enhance (or affect) your position as a seller.

### ***Pricing Too High? Too Low?***

High and low pricing: sellers who like to make a killing price their property way too high, making it out of reach to buyers who are looking at similar properties in the same location. Don't be priced out. Going to the other end of the spectrum, you'll know that you priced your house too low when it's bought the same or next day after you or your agent advertised it. It was "snatched" by someone else because it was way below market price.

Obviously, you as seller will try to get the highest price you can get for your property so you start with a high price.

The buyer, on the other hand, will offer the lowest possible price he can negotiate. So you start high and he starts low. This creates plenty of room to negotiate – the gray area that lies between the highest and lowest prices.

**This is where sellers can make the mistake of not demonstrating sufficient flexibility to the buyer!**

This is the reason there are high and low prices in real estate – what Albert Lowry called practising the give-and-take principle. “Such give-and-take is part of the bargaining process...It gives you both room to negotiate...As you and the buyer make proposals and counterproposals, you are inching closer to agreement...Then at some point one of you will yield no further.”<sup>13</sup> Develop the extra sense to know when to stop negotiating.

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<sup>13</sup> Albert J. Lowry. How You Can Become Financially Independent by Investing in Real Estate. Simon & Schuster. New York. 1982.

## ***Some More Common Selling Mistakes***

Ilyce Glink names a few more mistakes sellers make:

- **Undefined motivation** – are you selling your house because you want to or have to? Honesty in answering this question will affect your negotiation abilities. You might be sending the wrong messages to your agent or buyer. If you and your husband have mixed feelings, be sure you iron out your differences and reasons for selling before putting your house in the market.
- **Hanging around during open houses.** If you have an agent, let her do the work. Don't make buyers uncomfortable by your presence. They may want to ask the agent certain questions that they don't necessarily want you to hear.
- **Pets and Odours** – some buyers may not exactly be animal lovers; other buyers are turned off by cooking smells. Keep the pets invisible, and the smells at bay with air freshener.

- **Letting the house go stale** – if your house has been on the ads too long, know when to pull it out. Don't give buyers the chance to "suspect" something is wrong with your house. Take out the for sale sign and come back another time.
- **Timing:** when sellers sell their house in hopes to buy another, they fail to recognize proper timing as an essential component of the real estate process. When their offer on the new house is accepted but there are no firm buyers for their old house, they are forced to apply for a bridge loan which can make them out of pocket for a few years. Wait until your house is sold, or at least wait before a firm offer is in your hands.
- **Mortgage payments:** just because your house is sold does not mean you can skip mortgage payments. Make sure your mortgage payments are up to date until closing. When closing documents are drawn up, the lender will take any unpaid amounts and deduct them from any monies due to you. Check with your lawyer, escrow or title company officer.

- **Deposit money:** there is no fixed standard practice regarding deposit money – sometimes called “earnest” money. Requiring a deposit from the buyer is simply the seller’s need for assurance that the buyer will buy the property and has the financing required to buy the property. When time and money are spent in the showing, negotiation and contract preparation procedures, the seller has to be compensated for lost opportunities to sell to someone else if the original committed buyer suddenly backs out of the deal. Don’t omit discussing this with your agent or settlement agent. It’s added protection for you as seller.

## **SECTION 5: FINANCING**

When it comes to borrowing money, banking institutions will have set criteria for mortgages and profiles of individuals that they will lend the money to. Many full-service banks will provide complete financing, but they don’t necessarily tell you everything. So you may have to do some of the homework yourself instead of relying 100% on these lending

institutions. They will structure a loan that is most lucrative to them.

### ***Construction/permanent loans***

This is one way of financing a real estate purchase. A construction loan is a loan package consisting of two loans in one. The first one is to enable borrowers to purchase all the materials needed to build the house. When the house is finished, the loan is converted into a typical permanent loan. A closing takes place before any monies are released by the bank. So you and the bank will have to agree to a fixed amount prior to any closing or any withdrawals.

**EXAMPLE:** Say you need \$250,000. After closing, you need to withdraw an amount to pay for the land. The bank releases the funds. Then you'll need funds to buy the construction materials and pay for the contractor's time. How many withdrawals you can make and at what intervals vary from one institution to another. When the house nears completion, you take one final amount to pay for the rest of the bills. The final amount you pay, say \$200,000.00 out of the \$250,000.00 you originally borrowed, can be converted into a permanent loan.



Since construction loans are interest only loans, **remember that the principal is not paid monthly along with the interest!** You will receive a monthly bill for the interest on the outstanding balance. Chris Condon recommends two techniques you can use:<sup>14</sup>

1. do not overestimate the loan amount. Borrowers pay “points” on the loan. In the previous example, you used only \$200K out of the \$250K. This can represent a waste of money because you could be paying points on money you’d never use.
2. draw the right amount. Bank inspectors will usually make inspections of the house to verify whether the amounts you have drawn are justified. Most construction loans allow a certain number of free inspections before they start charging for the inspection. The trick is to decide which is more expensive to you: the interest fee or the inspection fee. Chris Condon advises exploring the possibility of taking smaller but more frequent draws.

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<sup>14</sup> Chris Condon. Building Real Estate Riches. McGraw Hill. USA. 2004.

## ***Permanent Mortgage Loan***

Many types of permanent mortgage loans exist. Not all options are available with a construction/permanent loan so ask the right questions. Monthly payments include principal and interest. Types of permanent loans are:

### ***Conventional Loans***

Conventional loans – any permanent, long-term financing that does not fall under VA or FHA.

### ***VA Loans***

These provides veterans with access to loans not requiring a down payment. It's the VA that acts as guarantor.

### ***FHA Loans***

To eliminate the lender's risk, Federal Housing Administration provides lenders with an insurance policy.

This helps to offset any fees tied to any of the usual lender's risks.

### ***Fixed and Adjustable Mortgages and Loans***

**Fixed rate mortgage** – loans are amortized over a period of 10, 15, 25 or 30 years. Interest rate is constant for the term of the loan.

**Adjustable rate mortgage** – also known as the variable rate loan; interest rate is calculated on the basis of prime rate set by the Federal Reserve. If prime rate goes down, your monthly payments go down, if they go up, so do your principal/interest payments.

**Home equity loan** – when you've built enough equity on your house; i.e. it is 75% paid for, you can borrow funds against this equity to pay for renovations in the hopes of an eventual sale. Banks' terms and conditions on home equity loans vary, so speak to your lender about the ramifications of the home equity loan.

**Reverse mortgage** – some banks will actually try to convince you to do a reverse mortgage. Details are too cumbersome to discuss here, but speak to your bankers. It is not for everyone.

### ***Seller Financing?***

Another type of financing is suggested by Ilyce Glink called *seller financing*. It means that you, the seller, lend the money to the buyer to buy your home, thus becoming the buyer's bank. If seller and buyer agree to the logistics of seller financing, it can be a wonderful arrangement for both parties.

### **The advantages to the buyer include:**

- ✓ quick and easy loan approval
- ✓ competitive interest rate
- ✓ lower fees than banks and other institutions usually charge
- ✓ less paperwork

### **The advantages to the seller include:**

- ✓ equity in your home turns into an investment from which you can earn a stable rate of return
- ✓ the loan is secured by an asset – your own house

### **IMPORTANT: One disadvantage, however:**

If the buyer defaults on the payments, you will need to bring legal action to get either your money or house back.<sup>15</sup>

### ***More about Seller Financing***

If you decide to go with seller financing, you should be able to spot the good candidates, just like banks do with people who apply for a loan. Borrowers should provide the following data:

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<sup>15</sup> Ilyce Glink.

- their name, address, Social Security number, three previous addresses, employer's name/address/phone number
- how long they have been at their present employer, as well as the names and numbers of their last 3 employers
- a copy of their latest federal and state tax returns,
- year-to-date statement showing income, assets and liabilities,
- copies of their most recent pay stub (if you believe this is necessary),
- they must sign an agreement for you to obtain a credit report on them.

### ***Tips for Real Estate Loan Applications***

If you're applying for a real estate loan, here are some tips from Hicks that come in handy:

- ☑ never submit a handwritten application.  
Professionalism will make lenders more comfortable
- ☑ ensure that the loan amount you seek is appropriate to the lender.
- ☑ find out from the channel what the debt cover ratio is for income properties, so that you can position your approach. Ten years ago, the acceptable ratio was 1.5 or higher. Check this figure out as this might have changed,
- ☑ prepare a good real estate business plan for the property you want to buy (this applies to commercial properties). Attach this business plan with your loan application. This gives the lender the impression that you've done your homework,

- ☑ Have a co-signer for the loan. It adds to the comfort level of lenders.

If you're borrowing money to purchase property you **won't** be living in, muster up enough courage when it's time to approach a lender.

Bankers usually turn detective when commercial loans are on the table. Be aware that interest rates on loans for buildings that are not owner-occupied are much higher and down payments are sometimes higher than 25%.<sup>16</sup>

When applying for commercial loans, be prepared to answer the following questions:

- ☑ what is your total monthly income
- ☑ do you have copies of your income tax returns for the last 3 years?
- ☑ can you verify your down payment requirement, and
- ☑ have you borrowed any of your down payment?<sup>17</sup>

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<sup>16</sup> Robert G. Allen.

<sup>17</sup> Robert G. Allen.



## CONCLUSION

As we noted earlier in this ebook, real estate is a very dynamic field; and that's one of the reasons why some people are hesitant to explore it, and to **exploit** its profit potential.

The way to overcome this obstacle, and to realize incredible profit in real estate selling, is to understand this dynamic field from the *inside*; that is, to know the tips, techniques, and strategies that turn ordinary real estate transactions into extraordinary ones.

**You, now, are one of the *insiders*.**

Thanks to this ebook and your efforts, you possess information that millions of people simply don't have access to. And you can take this information with you to your current real estate deal, and indeed, to your future ones as well.

You now know the following keys:

- ✓ **Knowing your Buyers**
- ✓ **Going from Agent to *Professional***
- ✓ **Finding HOT Properties**
- ✓ **Avoiding Mistakes**
- ✓ **Financing Success**

Use your new information wisely and professionally, and you'll soon discover why people who enter the real estate selling game – and play it *well* – stay there for life. It's fun, exciting, always interesting, and best of all: **profitable if you're an insider – and that's what you are right now!!!**