



The ABCs of Real Estate Investing: The Secrets of Finding Hidden Profits Most Investors Miss

Ken McElroy

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This book will teach you how to:

- ? Achieve wealth and cash flow through real estate
- ? Find property with real potential
- ? Show you how to unlock the myths that are holding you back
- ? Negotiating the deal based on the numbers
- ? Evaluate property and purchase price
- ? Increase your income through proven property management tools

The ABCs of Real Estate Investing: The Secrets of Finding Hidden Profits Most Investors Miss Details

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Omer Nizri says

A must for new rental real estate investors

Ken changed the way I think about rental real estate investments and provides a lot of advices that will save you money in the long run.

Every chapter contains practical actions to do in order to implement what you've just learned during the chapter so the content will sink in.

Khanh Cao says

This book is absolutely amazing!

Would recommend to people who are struggling with knowing the real value of their property, the managing process, or just simple want to sell/buy a property but has not known where to start.

The book also has very cool examples (and interesting), a critical insight on dealing with the papers, team members and stuffs, etc.. Just read it and you will see how cool it is. Totally worth the money ;)

Kammie says

Love the positive goal setting that the book starts out with! It really set the tone for the power of property investing. Can't wait to apply it to my own portfolio within the year! Love the questions to ask potential sellers and property managers. The real gem for me is the Five Step Property Evaluation process.

Jackson Udy says

Good book on how the real estate industry works. If you are trying to buy and invest in apartment complexes this is a great how to book. It goes step by step through how to make a purchase, and how to do your due diligence, so you can be confident in your investment. But if you are a looking to invest in smaller properties, like single family homes or duplexes, the advice in this book is more complicated than I would imagine you need. I probably don't need an accountant and a tax consultant for buying a duplex.

Best part of the book is learning how to do the due diligence and its step by step approach to real estate purchases, management, and sales

Scott says

Fairly decent guide to multi-family commercial properties. Will keep on my shelf and revisit when I start in that market.

May Udy says

Good book on how the real estate industry works. If you are trying to buy and invest in apartment complexes this is a great how to book. It goes step by step through how to make a purchase, and how to do your due diligence, so you can be confident in your investment. But if you are looking to invest in smaller properties, like single family homes or duplexes, the advice in this book is more complicated than I would imagine you need. I probably don't need an accountant and a tax consultant for buying a duplex.

Best part of the book is learning how to do the due diligence and its step by step approach to real estate purchases, management, and sales

Casimir Zoutendijk says

Great book with some very clear insights. Sometimes I had to let the information sink in for a while, since I am not too much of a numbers guy, but I feel like I eventually got the gist of it. The information is not only useful for people who want to know about investing, but also for people about to pick out a home to buy for themselves. I will definitely take this one up again to read some chapters so a 4-star review seems in order for me.

Tao Lee says

I haven't read a book this good in a while.

% step property evaluation:
verify property income
verify expenses
determine net operating income.
find the capitalization rate and valuation
calculate the loan payment and your profit or cash on cash

earnest money is refundable
a contingency clause defines a condition or action that must be met for a real estate contract to become binding.

social media is a strong marketing strategy you may not even need to pay for marketing.
Identify utility, insurance, ac, parking, plumbing, and lighting.

Stacia says

I thought this was a great book for those in the beginning stages of real estate investing. It was straightforward and contained numerous useful suggestions relating to the processes of researching, purchasing, and managing properties. Be aware it does not address ways to finance your investments, so you will need to look elsewhere if that is information you're seeking.

Nola Redd says

This book was an easy read, yet full of some excellent facts on working in real estate investing. And it had my favorite thing - formulas to analyze just how good (or bad) an investment is, from a cashflowing perspective. McElroy reviewed how to analyze properties and their P&L statements, and how to put together a team (actually...that first). He did seem stuck on larger properties, and left me hanging with a few questions about smaller investments, but nothing overly required. One of the best and most informative books on real estate investment I've read yet.

Francesca Brown says

This book makes investing seem possible for the average Jane or Jo. I currently am interning at a real estate investment company and many of the themes presented in the book are exactly how my bosses view the investment world. I look like a genius because I understand the basics and I build upon my knowledge with the internship! I'm soooo lucky. Moving along...The ABC's... is a great introductory piece. I took thorough notes and plan to put this knowledge to work soon!

Megan says

this was a great book about details of real estate investing. I learned alot about how to make investments more strategic and less risky. There were alot of useful formulas and calculations on how to know if the investment is worth it or not and such. Great book if you are interested in learning more about the subject.

Devin says

"What makes this book different [is] it is written from the most important aspect of real estate investment, which is property management"- Robert Kiyosaki

Partners are valuable because they allow you to own smaller positions in a number of properties rather than a big position in just one (p.3)

"All things are difficult before they are easy" (p.4)

When you buy a house or condo and rent it out, appreciation of the property rests solely on the appreciation of the surrounding neighborhood. When you buy a commercial property, like apartment buildings, appreciation is based on the cash flow of the property itself. When cash flow increases so does the value of the property. Manage that property right and you'll increase the value. (p.5)

If you want money out of a property, you don't need to sell. You refinance the property and pull out what equity you can. There is no taxable event, and you are not forced to put the money into another investment (p.7)

If everyone you talk with is having difficulty seeing your vision for a property it can either be one of two things: a revolutionary idea that will prove everyone wrong. Or a bad idea that everyone recognizes as a bad idea, except you. In 99% of the cases, the latter proves to be true. If you have to hard-sell your vision for a property to everyone you share it with, it is likely your project when completed will be hard to sell, too. (p.8-9)

Your true power and confidence won't come from your past experience. Instead, it will come from the solid deal you assemble that is a win-win for everyone involved. (p.12)

The listing price is meaningless. There is no point negotiating based on this number, and actually doing so is a recipe for disaster. That's because in most cases, the listing price is the seller's opinion of what the property is worth. It is not founded on the actual operations of the property (p.13)

"The only way you'll know a lot about real estate is to begin in real estate" (p.14)

You have to set goals. Goals will be the foundation of the roadmap for your success. They will tell you when you have arrived, so you can pat yourself on the back. Everyone needs that reinforcement. (p.15)

A goal is something you plan to achieve. It should be measurable with a time limit, dollar amount or rank comparison. Goals that are vague are hard to attain and stick to. (p.18) Goals must also be realistic and attainable. (p.19)

Always make your contribution bigger than your reward

Always make your performance greater than your applause

Always make your gratitude greater than your success (p.20)

There's nothing wrong with a goal that evolves over time unless you are changing your goal every time you hit a roadblock. That's called avoidance. (p.21)

It helps to make yourself accountable to someone (p.22)

Communicate your goal clearly on paper and then to everyone you know. (p.23)

Plan and set milestones in your success map so you know when you've achieved important steps along the way (p.24)

Behavioral Change TO-Do List

Taking the same route to work every day- taking a different route gives you new scenery and helps you learn about the market and the properties within it.

-Hour-Long Lunches- cutting your eating time down gives you more time to analyze deals, make phone calls, meet with people, and visit properties

-Watching TV-eliminating TV, or at least reducing your viewing time, frees up countless hours to work on your business. (p.24-25)

*Financial Freedom To-Do List

1. Add up your personal expenses
2. Determine what you can reduce, eliminate, or do without
3. Figure out how many properties you need to buy to cover the total

Business TO-Do List

Find your team
Evaluate the market
Find a great property
Assign a valuation to the property
Establish a property plan
Develop a budget
Manage the property

In order to achieve your goal, you must remain focused. Don't divert your eyes, get shiny object syndrome, and move in a direction from your goal. (p.27).

As you learn more about your own market, you will find yourself continually refining your goal and your search. That's perfectly fine. Gradual focusing is necessary (p.59).

Chapter 3-It takes a Team

Without experts on your team, deals take longer to find, evaluate, and close, so there's the value of your time and the loss of valuable opportunities (p.30) Think of your network as your lifeline. Not only will they help you with the deals you're working on now, they are usually the ones who will bring you your second, third, and fourth property opportunities--particularly if you have voiced your goal to them clearly (p.31)

Before I sign a deal, I have a contractor perform a detailed inspection and file a report of all critical and noncritical repairs (p.36)

Chapter 5-Swampland for Sale

The market is more important than the property (p.48) Ideally, supply should be low and demand should be high. Supply is defined as the number of rental properties available in a market or sub-market. Demand is defined as the number of people looking to rent.

Outward signs of demand: If there are a lot of move-in specials advertised, demand is low. If rental properties are offering no incentives at all, demand is high.

If supply is greater than demand, you may want to stay away or at least keep looking for a better market. Your job of finding residents, generating cash flow, and increasing the profitability of the property will be more difficult. (p.50)

There are three true indicators of supply and demand:

1) Employment- If a market or sub-market has lots of jobs, people will come to fill those jobs; jobs drive residency. Property that is near to employment is in greater demand. As you evaluate your market or sub-market for employment, look at how stable the employment base is. Are the companies reputable? Are their products or services in ever growing demand? Is the mix of companies diversified? You want local employment to be strong (p.52)

2) Population-

Places that have clearly defined personas are population draws almost as powerful as employment (p.54). Universities are always population drivers because just by the nature of what they do, they bring a steady

stream of students, faculty, and supporting businesses to an area. (p.55)

3) Location

Locations have to be evaluated not based on geography alone, but based on how they measure up in relation to supply and demand. Great Locations have drive-by visibility. The more cars that pass by your property and see your "For Rent" sign, the better your chances of success. Great Locations possess rare quality and are in demand; they are low in supply and high in demand (p.58-59)

Chapter 6-Finding your Diamond in the Rough

Set target property parameters to save time for you and your broker. It makes you more focused and helps make the work more manageable (p.62-63)

Read every article you can in the target market. Look at the news, sports, neighborhood happenings, what's being built, etc. because they tell you something about the market and its desirability (p.66).

You cannot change the neighborhood, so make sure the property is in a place that you're prepared to manage. The "rent roll" (listing of the units and how much they rent for) and occupancy rate are the two indicators of how a property is operating. (p.73)

Chapter 7- Is it Really a Diamond?

"In good deals the numbers work. In bad deals, they don't" (p.82)

Investing Principles:

1. The Seller's asking price is irrelevant.
2. You determine the property value, which becomes your offer
3. With multiple units, the property value is based on the current cash flow of the property

Property Valuations for multiple Units (p.82-83)

1. Verify Property Income
2. Verify expenses
3. Determine net operating income
4. Find the capitalization rate and valuation
5. Calculate the loan payment and your profit or cash on cash

Verify Property Income

There are three types of income to consider with any property: Actual income, actual potential income, and future potential income.

Actual Income- The total income the property generated in the prior 12 months

Actual Potential Income- The total income the property could have generated in the prior 12 months had all units been 100% occupied and had the owner taken advantage of all other income opportunities

Future Potential Income- The total income of the property could generate as today's market rents, 100% occupancy, and taking full advantage of all other income opportunities (p.85)

Many owners try to sell based on future potential income of the property, but you should only buy at the actual income.

Try to avoid retail prices at all costs

2) Verify Expenses

Net Operating Income (NIO)- Income minus expenses

Consider hiring a property management representative with an hourly consulting fee to walk through the

multi-unit property building to learn what it will take to run the property and get insight on how to minimize expenses (p.91-92)

Rule of thumb: as properties age, repair and maintenance costs go up (p.93)

3) Determine NOI

4) Cap Rate= NOI divided by Purchase Price

The purchase price here is actually the purchase price trends for a comparable building in your market.

5) Calculate the Loan Payment and your profit cash on cash

Chapter 8- The Big Commitment

When I know 70% of everything there is to know about a property, that's when I make a decision (p.103)

Consider using a letter of intent first to save money on attorney fees. The Letter of Intent contains your offer along with the basic deal points like down payment amount, due diligence time frame, escrow amount, and financing contingencies; it's like a proposal to the seller. (p.106). Typically, your real estate broker can draft and review a letter of intent for you. Note: the letter of intent is not binding. It just delineates your intent to the purchase of the property. (p.107)

Attorney drafts up the "Purchase and Sales Agreement" after the terms of the letter of intent are agreed on.

When you get ready to sign this, you will have to put down a refundable earnest deposit until the completion of the due diligence process and you've secured your financing.

See questions that he recommends you should be in Purchase and Sales Agreement (p.107-108)

Don't sign a deal that doesn't have a loan and due diligence contingency (p.109). Make sure the purchase and sales agreement gives you access to all the files and papers relating to the property.

Chapter 9: Due Diligence-

Be thorough, meticulous, careful, thoughtful, attentive, and everything else. Perform a thorough walk-through of every unit. This is the time when you make detailed assessments of actual costs for property improvements, ongoing maintenance, and operations (p.111). The goal of due diligence is to find out 100% of everything there is to know about the property and generate an operating plan and budget from that information (p.111-112)

Make sure the property is in compliance with government standards. Look for: Fire code violations (invite the local fire department to complete an inspection), permit problems (having any remodels), environmental concerns such as asbestos, mold, lead paint, or radon, and existing ownership issues like zoning violations or encroachment onto another property. (p.115)

Also Look for:

- Roof problems, including signs of leaks and overall disrepair or wear.

The condition of heating, ventilation, and cooling systems and equipment service and maintenance records.

What's the repair history and the age of each piece of equipment?

- Electrical wiring that is not in compliance with current codes

- Plumbing that is aged, corroded, or leaking and the type of plumbing (Copper, PVC, Galvanized, etc)

- condition of the exterior paint and trim

- Condition of the driveways and parking lot

- Large trees that need trimming

Put an estimated cost to each item in the list. Total the cost and bring the info back to the seller. In some cases, they can fix a few things before close. (p.116-117)

Verify all utilities. Call the utility companies and get the last twelve months' operating history on each account. Ask about increases for the next year. (p.118)

Chapter 10- Making Sense of it all

Get a contractor to do a site inspection and estimate the cost of repairs; what it would take to get the place in shape. (p.122)

You increase the value of your investment by reducing expenses and raising income. (p.123) Income opportunities can include: Laundry income, parking income, water and sewer income, late fees, non-sufficient fund fees, cable income, internet revenue, and telephone income. (p.130)

There are two kinds of property taxes, which are on the real estate property, and personal property taxes, which are taxes on the contents of the property like refrigerator, stoves, dishwashers, and other appliances. You can get these from the tax assessor's office. (p.133)

Individually metered is the best scenario with utilities because it means the resident pays their own bills. This means lower expenses to you. In master-metered buildings there is no incentive for the tenants to keep utility costs down (p.134)

Chapter 11- You own it...Now what?

Managing the property is about maximizing your cash flow (p.140)

The key to a good property management and a good property manager has to do with systems. Systems to handle advertising and marketing, leasing, employee-related issues, hiring of outside vendors and bidding for services, reporting, emergencies, maintenance request, rent collection, account, and whatever else. (p.141)

If you're managing yourself, look for a handyman or maintenance person who has enough time and who will be available to you anytime you call (p.142).

Don't feel obligated to rent to criminals and give them a "fresh start". Run a background check on every applicant. (p.143)

At the end of each month, an analysis of the income and expenses should be done and compared to the budget. Do it monthly and you'll stay on top of your business (p.146)

Consider a 24 hour policy on all non-emergency maintenance items and immediate response on emergencies. An emergency would be a fire, flood, or blood. (p.148-149)

Poor Property management is one very large contributor to a property's under performance and reduced valuation.

Criteria and suggestions for hiring a property management company (p.148-150)

Taking care of your residents means responding to their calls quickly. It means fixing what needs to be fixed, It means a courteous, professional staff that is always happy to help. It means doing everything you would expect yourself if you were a resident (p.154).

Maintain a reserve fund for your property for when the unexpected happens.

Property management is a 365-day-a-year, 24 hour a day job. You owe it to your residents to be available and responsive. You also owe it to yourself if you are serious about your investment appreciating and generating cash flow. (P.155)

Chapter 12- To sell or not to sell

When you are planning to sell your property, you want your rental rates to be at the market rate in the area. (P.158)

There are two kinds of expenses: fixed and variable.

Fixed Expenses: property taxes, utilities, and insurance.

Variable Expenses: management costs, payroll, administrative, advertising, repairs, and maintenance items.

Focus on the variable expenses when selling because you have more impact on that. The goal is to minimize them as much as possible. (p.161)

If you don't have a plan for your capital gain, you should not sell the property.; you need a plan for what to do with your money. (p.163)

Suz says

It takes courage to do what this book advises and it really doesn't give you enough instruction to build up that confidence. But still interesting.

Omar Omran says

I finished it in one day. I was looking for a lot of answer but got less than half of them answered. i wish he talked about funding and how to fund properties on low down payments.

i liked how to make the valuation of the property. However, the author talks as a property company not as an individual investor which made difference for me. for example he often says , i asked my team to help me get the number. But i am not a company and i do not have a team.

Also, it applies more to the American market as i can see.

All in all, it is worth surfing.
