



MADE FOR  
AUSSIE  
INVESTORS



PropertyInvesting.com

# USA PROPERTY POWERPACK

Access Impressive Cash Flow Returns From USA Property

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- Acknowledge that it may be necessary to seek paid professional advice in order to apply this general investing content to your own specific circumstance.

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# Introduction

Dear Fellow Investor,

Australians have long had a special affinity with the United States of America. We've fought together in wars, and, of course, movies and TV shows from Hollywood have helped us to assimilate U.S. culture with our own.

Just like 'movie-portrayed' Australia doesn't look much like our daily reality (after all, kangeroos don't live in my backyard, and I don't normally carry a knife), so too is day-to-day life in the U.S. rather predictable and unexciting. Just like in Australia, in the U.S., most wives aren't desperate, most hospitals don't have action-packed emergency rooms, and most folks get up in the morning, go to work, come home in the evening and go to bed.

However, there is one thing about day-to-day life in the States that is quite different to Australia – something caused by a recent event that has caused a profound shift in the attitudes of most Americans – the global financial crisis.

In Australia, we have been relatively unaffected. Not so in the U.S. In Florida, for instance, where I have focused my investing, unemployment is well above 10% and property prices have dropped by as much as 80% (yes... 80%!) since a market peak in 2006.

Given the fall in real estate values, it's shocking but not surprising that everyone I met on my last trip over either owns, or knows someone who owns, a property whose mortgage greatly exceeds its value. No exaggeration... everyone!

With this in mind, is now the right time to be thinking about investing in the U.S. property? Well, with the Australian dollar so high, and U.S. properties so inexpensive, and while U.S. citizens are grappling with a housing crisis, the conditions are favourable for Aussie investors to acquire U.S. properties that deliver impressive cash flow returns.

## **USA Property PowerPack**

PropertyInvesting.com is pleased to provide you with this interesting, insightful and comprehensive resource – written specifically for Aussie investors.



The information in this product was sourced from my own investing experience – both in Australia and the U.S. – and from the insights of expert investors and advisers. When pieced together, I believe *USA Property PowerPack* delivers a step-by-step outline explaining how to create and maintain a powerful portfolio of positive cash flow U.S. property.

USA PowerPack contains the following components:

### 1. Four DVDs

In December 2010, PropertyInvesting.com held a special 'closed' two-day seminar for a small group of VIP clients. In it, we explained in step-by-step detail how Aussie investors can understand, find, buy and profit from U.S. tax liens and U.S. property.

Luckily for you, this event was recorded and the four DVDs in this product contain the professionally edited video footage. These DVDs should work on all DVD players. However, if you are having problems, try watching it on your PC using VLC media player. It's free and you can download it from: [www.videolan.org/vlc](http://www.videolan.org/vlc).

### 2. Expanded workbook

After the seminar, I spent many weeks writing this comprehensive workbook.

In it are copies of all the important PowerPoint slides, plus vastly expanded commentary in the form of 'Further notes'. Space is also provided so you can make your own notes, and from time to time, you will find thought-provoking questions that you should try to answer.

Also included in this workbook is an appendix that contains: 1) a contract to purchase real estate, 2) a HUD1, 3) a lease, 4) a rental listing agreement and 5) a summary of the how each state handles tax liens and tax deeds.

### Getting started

Although there are numerous ways to progress through this product, I recommend watching the video first. Not all of it in one go... but session by session. As you do, make your own independent notes based on what you see, hear and think.

After watching each session (and making your own notes), pause the video and read the 'Further notes'.

Remember, the PowerPoint slides you will see on the video are also in this workbook. Space is provided under each slide so you can record the time when it referenced on the video. This will keep you awake and also help you locate the slide/footage should you ever want to view it again.

### Thank you!

On behalf of all the team at PropertyInvesting.com, thank you for your purchase. We sincerely hope you find this resource insightful and helpful, and look forward to being of more help in the future.

Sincerely,



*Steve McKnight*

P.S. With the preliminaries over, it's time to begin. Grab a coffee and some blank paper (for your notes), insert DVD 1 into your DVD player and look at page 7.

# USA Property Investing

## Day 1: Introduction



TIMING: DVD ..... Approx. time .....

### Further notes

Preparation is the key to ensuring you get the best benefit possible from the investment you've made in buying this resource. With that in mind, here are three helpful tips:

1. The video footage was sourced from a live seminar that ran over two days, and it will take you at least 12 hours without a break to watch all four edited DVDs. Such a herculean cramming feat is not recommended. A much smarter approach is to progressively work through the content at a pace you can comfortably manage.
2. Make sure you allocate 'good quality' time to watching the DVDs. This means you should set aside time when you are mentally alert and watch the video in a place where there are minimal distractions so you can concentrate, absorb, and above all... think.
3. Is there someone you want to watch these DVDs with, or work through this workbook with? If so, you will need to co-ordinate a time and place where you are both available.

### Your notes

Use the table over the page to document your plan for progressing through the DVDs and workbook.



Session	DVD ref.	Approx. minutes	Date deadline
<b>Introduction</b> Day 1	DVD 1 Chapter 1	3:49 mins	/ /
<b>Session 1</b> Risks & rewards	DVD 1 Chapter 2	47:31 mins	/ /
<b>Session 2</b> Six easy steps to setting up	DVD 1 Chapter 3	45:19 mins	/ /
<b>Session 3</b> Capital management	DVD 1 Chapter 4	19:18 mins	/ /
<b>Session 4</b> Investing in tax liens	DVD 2 Chapters 5–8	1:28:17 mins	/ /
<b>Session 5</b> Direct property ownership	DVD 2 Chapter 9	1:14:33 mins	/ /
<b>Day 1 Debrief</b> and Tommy's U.S. MasterMind	DVD 2 Chapter 10	17:41 mins	/ /
<b>Session 6</b> Introduction and hotseats	DVD 3 Chapter 11	34:26 mins	/ /
<b>Session 7</b> Tenancy, management & selling	DVD 3 Chapter 12	30:41 mins	/ /
<b>Session 8</b> Live due diligence case study	DVD 3 Chapter 13	34:26 mins	/ /
<b>Session 9</b> An Aussie investor in the U.S.A.	DVD 3 Chapter 14	33:45 mins	/ /
<b>Session 10</b> Stu Silver: Investing in mobile homes	DVD 3–4 Chapters 15–16	38:47 mins & 52:03 mins	/ /
<b>Session 11</b> James Simango: Accounting & tax	DVD 4 Chapter 17	1:28:42 mins	/ /
<b>Session 12</b> Q&A	DVD 4 Chapter 18	32:02 mins	/ /
<b>Day 2</b> Debrief	DVD 4 Chapter 19	9:42 mins	/ /

# My Goal

How To Create & Maintain

A USA Property Portfolio

That Delivers Impressive

Positive Cash Flow Returns

TIMING: DVD ..... Approx. time .....

## Further notes

This product aims to alert you to various direct and indirect real estate investing opportunities in the U.S.A. While there isn't enough time to cover everything you need to know about every strategy, after working through this product you will be surprised how much your investing skill and sophistication have increased.

Although the focus is on U.S. property, many of the principles discussed can be applied to overseas investing in general – and even Australian real estate.

Our bias is towards investing in U.S.A. property with the aim of earning impressive positive *cash flow* outcomes. How impressive? Well, the reward needs to be sufficient to justify all the extra risks involved with buying property in a foreign country and managing it from afar.

## Your notes

1. What do you think takes more skill – buying overseas property, or managing it after you've bought it? Given your answer, is buying or managing more important to your long-term wealth creation success?
2. Nominate an initial annual net (i.e. after all expenses) percentage return you want to achieve from your U.S. investing activities (for example, 5%, 10%, 15%).

# Your Goals

## Write down three goals

that you would like to  
have achieved by the  
end of this seminar



TIMING: DVD ..... Approx. time .....

### Further notes

Now you know my goal for creating this product, spend a few moments thinking about what knowledge, information or outcomes you would like to achieve from working through the DVDs and workbook.

This is an important exercise, because if you can identify what it is you want to learn or know, you have an increased chance of finding a suitable answer. You may like to be general and talk about broad topics (e.g. 'What is a tax lien?'), or you may want to be more specific (e.g. 'I want to learn about title insurance.')

There is no right or wrong answer... just have a go.

### Your notes

#### My goals:

- 1.
- 2.
- 3.

# Event Structure

## Day 1

- Risks & Rewards
- 6 Steps To Set Up
- Capital Management
- Tax Liens
- Direct Property

## Day 2

- Hotseats
- Tenancy & Selling
- Guest Speakers
- Accounting & Tax
- Expert Panel

TIMING: DVD ..... Approx. time .....

### Further notes

The source of the video footage was a live two-day seminar, with these additional notes added later on during the creation of this workbook.

The course content delivered at the seminar was structured so that Day 1 was more theoretical in nature, and Day 2 more practical and illustrative.

Some of the content sessions may be heavy going, but persevere as best you can, because the information is extremely relevant and critical to your success in creating and maintaining a successful U.S. property portfolio.

There were some slight modifications to the topics on Day 2, and so this slide is a little different to what was shown at the live seminar.

### Your notes

Are you someone who is more interested in the 'deal', or are you more of a 'details' person? Whichever is your strong suit, be aware that you will favour your passion, but it is your weaker side that is more likely to lead to financial loss. Don't miss out on the opportunity to build on your strengths but also fine tune areas where you can improve. Take a moment to list the areas in which you feel you are weakest.

# Guest Speakers

- Tommy Senatore
- Aran Dunlop
- Stu Silver
- James Simango

TIMING: DVD ..... Approx. time .....

## Further notes

In addition to the presenting done by me (Steve McKnight), several guest speakers appear on this DVD, including:

- **Tommy Senatore** ([www.TaxLienAndDeed.com](http://www.TaxLienAndDeed.com))  
Tommy is a property expert who has provided training for Kiyosaki and Trump. He was also employed as a para-legal for a law firm that specialised in tax lien investment. Today he runs his own training company called TLD International.
- **Aran Dunlop**  
Aran is an Australian who left his homeland to pursue investing opportunities in the U.S. He is based in Florida and is concentrating on creating and maintaining a portfolio of positive cash flow investments.
- **Stu Silver** ([www.TheMobileHomeMan.com](http://www.TheMobileHomeMan.com))  
Stu Silver is a man who has done just about everything possible in real estate. Professionally qualified and with decades of experience and training, Stu owns an extensive portfolio of properties – including several mobile home parks.
- **James Simango** ([www.usTaxCentral.com](http://www.usTaxCentral.com))  
With accounting qualifications that include being a C.P.A. in the U.S. and a C.P.A. in Australia, James is well qualified to alert and advise Australians on the issues they need to think about and prepare for when investing in U.S. property.

# USA Property Investing

## Session 1

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### Risks & Rewards



TIMING: DVD ..... Approx. time .....

#### Further notes

It may sound strange, but Session 1 is designed to talk you out of investing in the U.S. by providing a warts-and-all look at the very real risks foreign investors face when buying property abroad. It's not all bad news, though – there are juicy rewards on offer too.

Hopefully you will see that the underlying theme of this session is:

**Do the upsides outweigh the downsides by enough of a margin to warrant the extra effort and risk associated with overseas investing?**

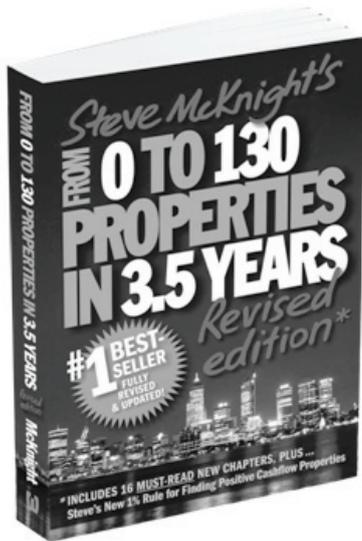
While the U.S. is the point of reference, the principles explained here can be applied more broadly to all overseas investing.

#### Your notes

1. What do you hope to get from investing in the U.S. that you can't get from investing domestically?
2. What do you think your biggest risk will be?



# A Question...



TIMING: DVD ..... Approx. time .....

## Further notes

Many people who bought my first book (or who are lucky enough to have the revised edition) are extremely interested to read how I bought my first investment property in 1999 for \$44,000, and how I was able to achieve a positive cash flow outcome by initially renting it out and then later selling it on vendor finance. They are also captivated by the story of achieving freedom from having to work (i.e. financial independence) by securing income streams from positive cash flow properties.

Quite often, people will say to me, 'Steve, if those properties were available today I would definitely buy them.' And therein lies the problem... finding positive cash flow properties in Australia (assuming you want to borrow 80%+ of the purchase price) is now extremely difficult, because prices have risen far in excess of the increase in rents.

That's not to say positive cash flow outcomes in residential Australian real estate are extinct. You can still 'make' them by being creative or leaving more money down, but going out and 'buying' a positive cash flow property is proving more and more difficult.

## Your notes

How do you feel about the prospect of achieving financial independence through positive cash flow property?

# A Question...

If a similar opportunity  
was available to you today,  
**would you take advantage of it?**

TIMING: DVD ..... Approx. time .....

## Further notes

I think there's a misconception about how easy it was to find positive cash flow properties when I started investing in 1999. I spent days, if not weeks, in looking for such properties in the Melbourne metropolitan area and came back with no leads at all – nothing!

It wasn't until I went to Ballarat that opportunities emerged. But even then, it was a part of Ballarat where there was a large concentration of ex-government 1950s and 1960s commission homes, which had been originally trucked onsite in halves and assembled (such houses would be called 'manufactured homes' in the U.S.). Due to significant price increases, those homes are no longer cash flow positive today. However, the idea of buying positive cash flow property is alive and well and in abundant supply in many locations in the U.S. That's not to say buying and managing the profit will be easy or risk-free.

The important conclusion I've reached is that although there are *technical* differences between investing in Australian and U.S. property, there aren't any *conceptual* differences between the opportunity that existed for positive cash flow property in Australia in 1999 and the opportunity that exists right now in the United States of America.

## Your notes

If zero means 'not interested at all', what score out of 10 describes your current interest in U.S. property?

# Reasons For

## ✓ Cash Flow Returns



TIMING: DVD ..... Approx. time .....

### Further notes

Achieving a positive cash flow return is the clear winner when it comes to reasons why you might be interested in investing in U.S. property. For example, here's a sample deal of a property that we made an offer on just before the live seminar.



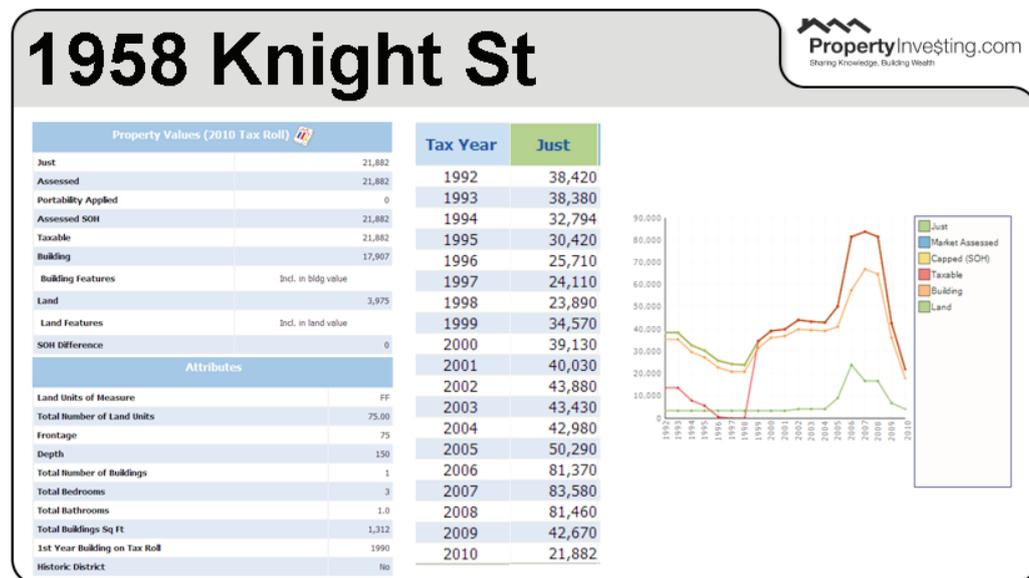
Before going on, pause the DVD and take a few moments to describe the property you see in the picture above by listing the physical attributes of the house (imagine you were describing the picture to a blind person).

## Further notes (cont'd)

Here are some hints to get you going:

1. How many bedrooms do you think it has? How many bathrooms?
2. Describe what the house is built out of (guess if you have to).
3. Describe what condition the house is in.
4. What sort of people would live in the house (singles, family, etc.)?
5. Where would the cars be parked? How many would fit? Is it secure?
6. Make a comment about the size of the front and back yards.
7. Does this house look too different to others in or near to where you live?
8. If this house was in your neighbourhood, what would it cost to buy, and what would the weekly rent be?

The statistics below are from the Lee County property appraiser's website.



These statistics show the movement in values as independently assessed by the property appraiser. The values are calculated for property tax purposes (a near enough equivalent to values put on Aussie homes, and upon which council rates are levied).

### Further notes (cont'd)

Notice how values boomed from 2005 until 2008, and then collapsed? The value in 2010 was lower than at any time in the past 18 years.

Rentometer.com is a website that you can use to estimate the likely rent based on other rental properties in the area. It is more of a guide than absolute guarantee. As you can see, for a three-bedroom dwelling at this address, a monthly rent of \$700 seems like a 'good deal' against a median of \$900 a month (the arrow pointing to \$900).

## Your Results!

\$700 - 3 bed, 1958 knight st, Fort Myers, FL 33916  
Your apartment seems to be a good deal!



Our initial offer to buy this property was \$19,000. Here's a summary of the budgeted cash flow return per annum:

Cash Down	
Purchase Price	\$19,000
+ Closing Costs	\$500
<b>= Cash Down</b>	<b>\$19,500</b>

Cash Back	
Rent	\$8,400
- Property Taxes	\$700
- Insurance	\$800
- Maintenance	\$500
<b>= Cash Back</b>	<b>\$6,400</b>

### Further notes (cont'd)

Cash Flow Return	
Cash Back	\$6,400
÷ Cash Down	\$19,500
	x 100
<b>= Cash on Cash Return</b>	<b>32.82%</b>

### Your notes

What do you think of this return? Do you think a property investment like this would exist in Australia?

# Reasons For

- ✓ Cash Flow Returns
- ✓ **AUD Near All Time Highs**



TIMING: DVD ..... Approx. time .....

## Further notes

As shown in the graph on the next page, the Australian dollar (AUD) is at a near post-float all-time high. Comparatively, your Aussie dollar now buys more U.S. property than at any time in the past 25 years. Our dollar is at historical highs because our economy is seen to offer better returns than the U.S. This 'superior' buying power could continue, but it is unlikely to hold once the U.S. economy regains its momentum. When this happens, the U.S. dollar (USD) will strengthen. This means the opportunity to buy in the U.S. is as good now as it has ever been since the dollar was floated. But who knows how long it will last?

## Your notes

If you wanted to buy \$100,000 worth of U.S. property, calculate how many Australian dollars you would need at the exchange rates shown below (helpful hint: divide \$100,000 by the USD amount):

Conversion rates	AUD needed	Conversion rates	AUD needed
1 AUD buys 0.40 USD	\$	1 AUD buys 0.90 USD	\$
1 AUD buys 0.75 USD	\$	1 AUD buys 1.05 USD	\$

# Historical Trend



TIMING: DVD ..... Approx. time .....

## Further notes

If a foreign buyer bought your home, would you want to be paid in their native currency – yuan, peso, rupee etc.? I doubt it, and so I'm sure you understand that when you buy U.S. property, the seller will want to be paid in United States dollars (USD).

Just like you can buy milk and bread, you can also buy United States dollars. Doing so means you enter into a foreign currency exchange (where you sell your Aussie dollars and buy United States dollars). As the graph above reveals, the value of one Australian dollar (AUD) compared to one USD varies over time. Back at the turn of the century (i.e. the early 2000s), it took about two Aussie dollars to buy one United States dollar. At the time of writing we are very close to one Aussie dollar buying one United States dollar.

All major banks have foreign currency desks and will be able to either sell foreign cash or else arrange for a wire transfer of foreign money into your desired foreign bank account.

## Your notes

There is no way of knowing for sure, but what do you think will happen to the exchange rate between the Aussie and U.S. dollars? Will the Aussie dollar will become more powerful, or will the U.S. currency improve? How does your expectation impact your immediate investing plans?

# Reasons For

- ✓ Cash Flow Returns
- ✓ AUD Near All Time Highs
- ✓ **Property Values ↓**

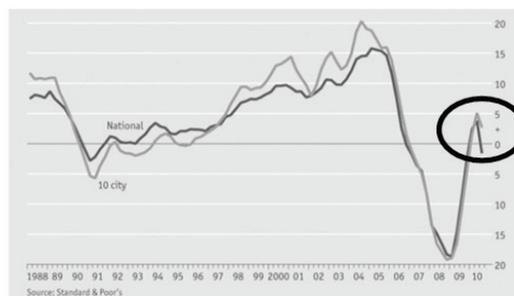


TIMING: DVD ..... Approx. time .....

## Further notes

The leading measure of U.S. home prices are the S&P/Case-Shiller Home Price Indices. The graph below tracks this index (source: *The Economist*) and reveals that U.S. property values fell sharply in 2008 and 2009, before recovering slightly into 2010.

## The Economist



## Further notes (cont'd)

However, the recovery seemed short-lived, as the trend has turned negative again. At the time of writing the following article had appeared on Bloomberg:

The S&P/Case-Shiller index of property values fell 0.8 percent from October 2010, the biggest year-over-year decline since December 2009, the group said today in New York. The decrease exceeded the 0.2 percent drop projected by the median forecast of economists surveyed by Bloomberg News.

A wave of foreclosures waiting to reach the market means home prices will remain under pressure in 2011, representing a risk to household finances. Federal Reserve policy makers this month said "depressed" housing and high unemployment remained constraints on consumer spending, reasons why they reiterated a plan to expand record monetary stimulus.

"We'll remain in negative territory for several more months," said Dean Maki, chief U.S. economist at Barclays Capital Inc. in New York, who forecast a year-on-year drop of 1.3 percent. "The housing market does remain weak and none of the recent data suggest a substantial pickup."

Judging by the comments in the Bloomberg article, it appears unlikely that U.S. property values will increase dramatically in 2011, and this means that we should not assume any capital growth. In fact, it is more likely that prices will fall than rise in the near future.

So, should we defer our investing decision to happier times? You could, but my expectation is that once property prices start to rebound, they will do so sharply.

The great opportunity on offer now exists because the U.S. property market is in the doldrums. Once real estate prices and the economy recover, you will have a more certain investing climate at the expense of such good buying opportunities.

There is no such thing as the perfect market, or the perfect time to buy. There is only now, and the opportunities that are available to you. It's up to you to make the most of them.

## Your notes

1. Take a moment to google 'S&P/Case-Shiller Home Price Indices'. What is the recent trend in U.S. home prices? What is the outlook?
  
2. What do you think will happen to the U.S. dollar once the U.S. economy and property prices recover? How will that help or hinder your investing plans?



Sale Price	Date
3,300.00	06/29/2010
250,000.00	09/28/2005

# 5149 Second Ave, Fort Myers

TIMING: DVD ..... Approx. time .....

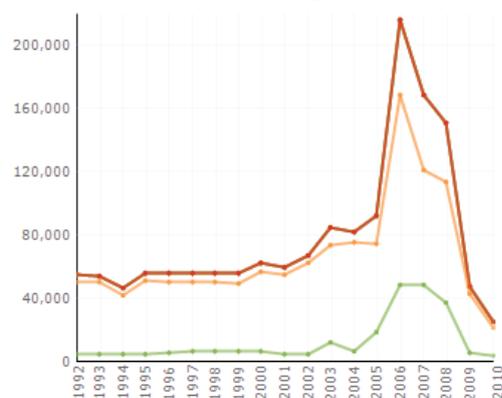
## Further notes

This property is a five-plex – five one-bedroom units split across two buildings on one title. One building has three units, the other building has two. It is in Fort Myers, Florida.

As a general rule, the more streams of income a property has, the better the protection against vacancy risk. Consider this: if you have a single-family home, you lose all your cash flow if the tenant moves out. But if you own a multi-family home, you can have one tenant move out and still earn cash flow from the other dwellings. In this example, there are five tenancies and five streams of income.

Aside from offering an impressive rental return, the property provides an excellent illustration of just how far property values have fallen in Florida. The last genuine market sale price for the property was \$250,000 (before the bank repossessed it for \$3,300).

The graph on the right (taken from the property appraiser’s website), shows how values for property taxes rose sharply before falling off the cliff – a fall of 88.4% from the peak. The current assessed value is just \$24,904. It’s not difficult to see how hard the current economic times have been on homeowners, investors and the lenders who financed their purchases.



# Reasons For

- ✓ Cash Flow Returns
- ✓ Dollar All Time Highs
- ✓ Property Values ↓
- ✓ **Online Evolution**



TIMING: DVD ..... Approx. time .....

## Further notes

The internet has made investing from afar substantially more feasible and accessible. Not long ago (and it is still the case in the majority of cities in the U.S.), investors wanting to buy tax liens had to appear at the auction in person, and those wanting to buy tax deeds or mortgage foreclosures had to be in the courtroom as the auction unfolded.

A new trend is emerging, though, which is seeing more and more counties holding their mandated tax lien and foreclosure auctions online.

Lee County in Florida is leading the way, and it won't be long before other counties follow suit. Why? Because it opens up their markets to more competition, ensuring a better deal for the client (as the increased competition results in the property owner being charged less interest) and a better deal for the county, as it is able to collect the property taxes it needs to run its services (as increased competition means that fewer liens remain unsold).

The evolution of the internet will continue to create many new opportunities, and at the same time, close others. For example, the opportunity to create a profit by turning up in person at mortgage foreclosure auctions and doing a deal with the financier has ended in counties that now auction such properties online.

While the increased competition closes some doors, the increased convenience means overseas investors are now able to participate without having to appear in person. Furthermore, over time, as more counties go online, the available supply will dramatically increase too.

# Essential Tools

- Computer & Laser Printer
- High Speed Internet
- Skype & Headset / Magic Jack
- Email
- Scanner

TIMING: DVD ..... Approx. time .....

## Further notes

You don't need a lot of expensive equipment to start your international investing empire. The basics you need are:

### 1. A computer

These days you can pick up a home computer and flat-screen monitor pack for under \$1,000. Unless you plan to do other tasks that require more grunt, you don't need fancy graphics cards or loads of extra RAM.

### 2. Laser printer

Don't make the mistake of using a cheaper inkjet and then paying through the nose for ink refills. Invest a little extra cash and buy a faster and ultimately more economical laser printer.

### 3. High-speed internet

If you're still on the ark with dial-up internet (or worse – have no internet all), then it's time to upgrade to either cable or DSL. There are many internet service providers (ISPs) who can help, including Telstra, Optus, iPrimus, etc. It's a good idea to have at least 2GB of data (bandwidth) each month.

## Further notes (cont'd)

### 4. **Skype (& headset) or magic jack**

Skype (a free download) allows you to make telephone calls (voice and video) over the internet for free to other Skype users, or for a small cost to any third-party landline (voice only). ([www.skype.com](http://www.skype.com))

Alternatively, you can buy a 'magic jack' that allows you to call anywhere in the U.S. for free after paying a small annual fee, and also gives you voicemail and a U.S. phone number. ([www.magicjack.com](http://www.magicjack.com))

### 5. **Email**

Your internet account will usually come with a number of free email accounts; alternatively, Hotmail and Gmail offer free accounts. You may need some help setting them up, so call a tech-savvy friend to assist!

### 6. **Scanner**

Finally, as you will be sending documents back to the States, you will need a good-quality (and easy to use) scanner. If you can, get one with a document feeder, as it is a pain to feed each page in one by one. You may be interested in getting a multi-function unit that scans, prints and photocopies. That's fine, but avoid the inkjet models.

## Your notes

How do you plan to communicate with your contacts in the States? What computer hardware and software do you need to allow this to happen?

# Reasons Against

## x Time & Physical Distance



TIMING: DVD ..... Approx. time .....

### Further notes

Let's now consider the reasons why you shouldn't invest overseas – the first and foremost being the time differences and sheer physical distance.

In terms of time difference, the U.S.A. is somewhere between 16 and 19 hours behind Australian time, and this means:

1. Unless you want to get up in the wee small hours of the morning, there is only a small window of a couple of hours where it is evening here and morning there, or morning here and afternoon there.
2. A flight to Los Angeles takes 14+ hours and will cost you over \$1,000 (plus domestic connections), so it's not possible or feasible to quickly drive on over and personally 'fix' the day-to-day problems that crop up with your investment properties.

### Your notes

# Reasons Against

- x Time & Physical Distance
- x **Foreign citizen**
  - x Visa
  - x Rights
  - x SSN / Borrowing



TIMING: DVD ..... Approx. time .....

## Further notes

Foreign 'aliens' do not have the same rights as U.S. citizens. For instance:

- There are restrictions on who can enter the country.
- Even if you meet those requirements, you will need to apply for permission (called a visa – and not the credit card variety!) to enter the country.
- You can only stay for a finite number of days.
- You are restricted as to what you can do while in the country (i.e. if you plan to work in the U.S.A., then you need to apply for a special class of visa).
- You do not have the same legal rights as a U.S. citizen. For example, you might be detained if your immigration status is questioned.
- You will not be eligible for a social security number (SSN), and so you won't have access to social security.
- Without an SSN, you will find it difficult to borrow money in the U.S.
- You will not be covered by any state-funded medical insurance or welfare safety net.

If you plan to travel to the U.S., get good advice about travel insurance and how to acquire the correct entry requirements. In the States, be careful to comply with all the laws and be respectful at all times, remembering that you are a guest, not a citizen!

# Reasons Against

- x Time & Physical Distance
- x Foreign citizen
- x **Different currency**
- x **Growth prospects**



TIMING: DVD ..... Approx. time .....

## Further notes

Further reasons against investing in the U.S. are:

- **Different currency**

As you need United States dollars, every time you send money over or bring it back you will be entering into a foreign currency exchange. The exchange rate will vary over time, so there is a risk that any profit you make will be eaten away by unfavourable exchange fluctuations.

There is also added accounting complexity in tracking and bringing to account the exchange fluctuations.

- **Growth prospects**

As previously mentioned, the near-term growth prospects for U.S. real estate are poor, and there is a very real risk that any property you acquire will fall in value before it increases.

Your notes

# Reasons Against

- x Time & Physical Distance
- x Foreign citizen
- x Different currency
- x Growth prospects
- x **Reliance on your team**



TIMING: DVD ..... Approx. time .....

## Further notes

Unless you plan to move to the United States, the only effective way to overcome the tyranny and difficulties of time and space discussed earlier is to *establish* and then *maintain* a good 'on the ground' team of U.S.-based advisers.

The need to rely on external advisers will strike fear into the hearts of investors who have tendencies to be control freaks, but it is the only workable solution to an otherwise vexing problem and forces you to approach your investing from a business perspective rather than as a hobby.

In fact, being somewhat snookered into a more 'professional' approach is ultimately very beneficial to your long-term investing plans, because it provides more room to increase the scale of your overseas investments since you aren't doing the legwork. Instead, your job is to be the team manager.

## Your notes

# 1. Currency Risk

- An unfavourable movement in exchange rates creating a foreign currency loss.
- Transaction costs

TIMING: DVD ..... Approx. time .....

## Further notes

The three major risks foreign investors face are:

1. Currency risk
2. Management risk
3. Housing risk.

Let's look at each in turn, starting with currency risk.

Every time you send money to a foreign country, or bring it back, you will be subject to your funds being converted either to the foreign currency, or back to Aussie dollars. The value of the exchange is determined by two factors:

1. The exchange rate you negotiate (or are given); and
2. The transaction fee(s) charged by the entity doing the conversion.

A risk you face is that the exchange rate may deteriorate between the time you send the money over and the time you decide to bring it back, causing you to incur a financial loss. You may even find that your exchange loss wipes out any investment gain you make, or else increases any investment loss you suffer.

# Currency

## Outbound (From Aus to US)

- Sell AUD
- Buy USD
- Swapped at the prevailing rate

## Inbound (From US to Aus)

- Sell US
- Buy AUD
- Swapped at the prevailing rate

TIMING: DVD ..... Approx. time .....

### Further notes

When you send money overseas, you *sell* Aussie dollars and *buy* foreign currency.

When you bring money back to Australia, you *sell* foreign dollars and *buy* Aussie dollars.

The exchange rate is the prevailing rate at the time, which is generally the wholesale rate as determined by the money market, less a margin as charged by the financial house doing the transaction (which is in addition to any other transaction fee charged).

### Your notes

Think you have the buy and selling concept down pat? Test yourself by answering these questions:

1. If you bought a US\$50 book on Amazon, what currency would you have to pay the seller in?
2. What currency would you be buying, and what currency would you be selling?
3. How would the 'exchange rate' be determined?\*
4. What commission is charged by your credit card company on that exchange rate?\*
5. What other fee is charged by your credit card company?\*

\* You will need to contact your credit card company to find these out.

# Currency



Loss = \$ \_\_\_\_\_



\$100

AUD/USD=1.00 →

\$100

\$80

← AUD/USD=1.20

\$100

TIMING: DVD ..... Approx. time .....

## Further notes

In this example, the exchange rate deteriorates because the Aussie dollar strengthens, and because fewer Aussie dollars are returned than were originally sent over, a loss is incurred.

## Your notes

Have a go at working out the loss based on the following scenarios:

- \$1,000 sent over when AUD/USD = 0.80, and \$1,000 returned when AUD/USD = 0.90
- \$25,000 sent over when AUD/USD = 0.95, and \$25,000 returned when AUD/USD = 1.01
- \$100,000 sent over when AUD/USD = 0.75, and \$50,000 returned when AUD/USD = 0.90, and \$50,000 returned when AUD/USD = 0.95

# Currency



Profit = \$ \_\_\_\_\_



\$100

AUD/USD=1.00 →

\$100

\$120

← AUD/USD=0.833

\$100

TIMING: DVD ..... Approx. time .....

## Further notes

In this example the exchange rate improves because the Aussie dollar softens, and because more Aussie dollars are returned than were originally sent over, a profit is made.

## Your notes

Have a go at working out the profit based on the following scenarios:

- \$1,000 sent over when AUD/USD = 0.90, and \$1,000 returned when AUD/USD = 0.70
- \$25,000 sent over when AUD/USD = 1.02, and \$25,000 returned when AUD/USD = 0.95
- \$100,000 sent over when AUD/USD = 0.99, and \$50,000 returned when AUD/USD = 0.92, and \$50,000 returned when AUD/USD = 0.86

# Revaluation Triggers

- **Realised Gain / Loss**
  - Sending money over
    - Loan / Purchase of assets
  - Bringing money back
    - Loan repayment / Sale of asset
  - Taxable

TIMING: DVD ..... Approx. time .....

## Further notes

Although the foreign currency transaction begins when you send money overseas, the gain or loss on the exchange movement is only *realised* (i.e. becomes real) once part, or all, of the original sum is returned home. Up until then, any exchange gain or loss is only theoretical (i.e. *unrealised*).

Note: the trigger for taxation on the underlying property investment is not when you bring the money back, but rather the date when the property is sold or average rate across the year in the case of ongoing income, such as rental income.

If you were buying the asset in your own name, you would send the foreign funds to the appropriate authority handling your purchase – the county in a tax lien or the title company in a property purchase. You would then receive money once the asset was sold, or periodically if rental profits were made along the way.

Once you set up a U.S. entity, you will want to send money to it so you have funds ready to invest. This initial transaction will be a loan from you to your U.S. entity. Your U.S. entity will then do the investing, and once the profit is made, will be in a position to repay the loan, plus pay out the profit made. The taxation consequences of this are complicated, so get advice tailored to your needs.

Any realised exchange gain or loss will need to be recorded on your Australian tax return.

## Your notes

Who do you think pays the U.S. tax on profits made if you buy property in your own name in the U.S.?

Who do you think pays the U.S. tax on profits made if you buy property in a U.S. entity you create?



# Revaluation Triggers

- **Unrealised**
  - **Businesses**
    - Year end
    - Revaluation of Assets
    - Taxable Gain / Loss

TIMING: DVD ..... Approx. time .....

## Further notes

From the time you send money overseas, up until the time you receive the money back, any exchange gain or loss is theoretical and called 'unrealised' (i.e. un-real).

Generally speaking, unrealised exchange gains and losses are not taxable. The only exception is if you operate in a business structure which is required to revalue its assets at year end. In this case, the exchange rate difference since the last revaluation will create a gain or loss which may be taxable even though money has not been sent back. Check with your accountant for more information.

## Your notes

# Overcoming Risks

1. Time when you send money over
2. Dollar cost avg rather than chunks
3. Consider hedging options
4. Use a low margin provider
5. Low money down deals (Thanks Stu!)

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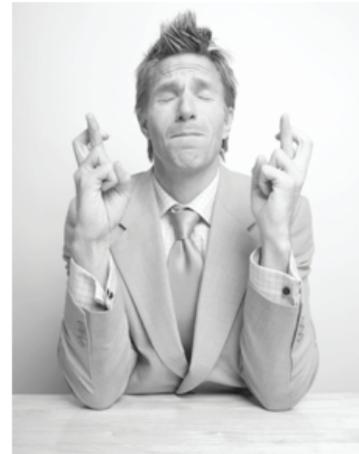
## Further notes

Once you have identified a risk, the smart thing to do is to try and reduce or eliminate it. There are five ways you can do this:

1. As much as you can, control the time when you send money overseas or bring it back to coincide with favourable exchange rates.
2. Send money over in parcels, rather than in large chunks. For example, let's say you are sending US\$100,000 over to the States to build your U.S. capital. In this case you might consider sending it over as five lots of \$20,000 over five days (or weeks), rather than one lot of \$100,000 in one day. This spreads your exchange risk across five days (or weeks). The same is true for sending your money back.
3. 'Hedging' means entering into a forward exchange contract to bring an agreed-upon sum of money back at an agreed date and at an agreed exchange rate. This gives you certainty as to your exchange rate and timing, but does not suit all investment situations. There are also fees involved.
4. You can reduce your transaction costs by using a no-frills exchange rate provider (such as OzForex).
5. If you can, borrowing in the U.S. means you need to contribute fewer Aussie dollars. Alternatively, when buying direct property, negotiating with the vendor to leave 'money in the deal' in the form of carry back finance reduces the amount of Aussie funds you need to transfer.

## 2. Management Risk

- Having a rental manager or tenant that underperforms, and you're thousands of miles away trying to sort it out in the middle of the night!



TIMING: DVD ..... Approx. time .....

### Further notes

The first major risk to foreign investors is currency risk; management risk is the second.

Management risk relates to the non-financial stress and financial loss arising from a non-performing tenant and/or landlord.

If you're like most investors, you'll feel that the most thrilling and exciting part of investing is hunting for great deals. While this takes skill, the cash will only flow if the asset is well managed. What (or who) is the asset? Well, it's four-fold:

1. The bricks, sticks and land that make up the *property*, and
2. The *tenant* living in the home, and
3. Your *team*; and most importantly
4. *You* as the manager of the team!

Since it's you who decides what to buy, who is allowed to live in your property, and who's on your team – while you can hire or pay people to advise you, never forget that ultimately it's your money on the line and so your investment must always remain under your control.

# Top Risks

- Rental Manager
  - Communication
  - Performance
- Tenant
  - Non payment of rent
  - Damage / Nuisance

TIMING: DVD ..... Approx. time .....

## Further notes

Part of your due diligence (i.e. homework) when acquiring and maintaining a U.S. property portfolio has to be your relationship with your rental manager, and his/her relationship with the tenant living in your property.

Good rental managers treat their profession as a *calling* rather than a *job*. Bad rental managers do it as a way to pay the bills. To ensure a smooth and harmonious relationship, you will want to make sure you have good ongoing communication with your rental manager and clear expectations about how you want the relationship to perform (how frequently you expect contact, in what form, what written reports, etc.)

In regards to the tenant, you want to make sure that the person living in your house will pay the rent and treat the property with respect. More information about handling tenants is included later in this product.

## Your notes

How much contact, and in what format, do you think you need to have with your rental manager in order to gain comfort that your investment is performing well?

Whose ultimate responsibility is it to set, monitor and give feedback about this expectation?

# Overcoming Risks

1. Meet them in person to discuss needs
2. Get referrals from agents
  - See who the REOs are using
3. Get references from landlords
  - Especially Overseas Landlords

TIMING: DVD ..... Approx. time .....

## Further notes

Ways that you can help reduce the risk of stress and financial loss arising from management risk include:

1. Meeting in person. Trying to establish a meaningful relationship with a rental manager over the phone is difficult, if not impossible. Being able to meet the person in the first instance is a much better option.
2. Not every realtor (i.e. real estate agent) is a property manager. When buying property (or just browsing/shopping), don't be afraid to ask if the realtor selling the property knows of a good rental manager.
3. If you are referred to a so-called good rental manager, ask for references from their clients – especially overseas clients, if they have them.

## Your notes

How much would you expect to pay (as a percentage of rent collected), to have someone manage your property in Australia. How much in the U.S.?

# 3. Housing Risk

- Buying a property that **costs money** rather than **makes money**.



TIMING: DVD ..... Approx. time .....

## Further notes

The third major risk category covers the inherent risk associated with any property investment – whether in Australia, the U.S., or anywhere in the world – the risk of buying a property that loses, rather than makes, money.

Why does this happen? Because of *unexpected* events (things you should have known about but didn't), and *unforeseen* events (things you couldn't have known about because they rarely, if ever, happen, but that happened to you).

Other than carrying appropriate insurance, there isn't much you can do about unforeseen events; however, the level and skill of your due diligence can do a lot to identify potential unexpected events.

The worst thing you can do when investing is assume. Another word for assume is 'guess', and another word for guess is 'hope'. You need to approach your investing as if you are a detective looking for clues and facts, not as a gambler looking for their next lucky win.

Remember this: the more things you leave to chance, the more chance there is that things will go wrong.

# Top Risks

1. Bravado!
2. Capital loss in value
3. Uninsured damage



TIMING: DVD ..... Approx. time .....

## Further notes

Here's a list of factors that increase housing risk.

### 1. Bravado

Bravado means thinking that you're going to teach the U.S. property market a thing or two, or generally thinking that you are going to be smarter than the average U.S. citizen. Bravado leads to a false confidence, and as the proverb says, pride goes before a fall. Instead of acting like you know it all, approach your investing with humility and look for ways to learn.

### 2. Capital loss

Before buying property, think about who is going to eventually buy your investment off you, and how they will use the property. Doing this maximises your value and limits your capital loss by making the property more appealing and therefore increasing its value.

### 3. Uninsured damage

Insurance is often something you have to have, but never want to have to use. You want to insure for known and possible risks, but only when the benefit of the claim outweighs the cost. Be aware that, like Australia, the U.S. has extremes in weather and suffers from natural disasters. Unlike Australia, though, the north can get bitterly cold, and this is something to consider when buying property in areas where it freezes or snows.

# Top Risks

1. Bravado!
2. Capital loss in value
3. Uninsured damage
4. Unexpected repairs
5. Damage / theft
6. Code violations



TIMING: DVD ..... Approx. time .....

## Further notes

### 4. Unexpected repairs

Rarely does anything sink a profit quicker than a significant unexpected repair of a structural nature. Since you will be buying from afar, and assuming that you're not a builder with x-ray vision, you are going to need to pay for a building and pest inspection. Make this one of your purchase conditions so that you don't spend the money before having the property under contract.

### 5. Damage/theft

Times are tough in the United States of America. At the time of writing, 13% of the population live in poverty – that's one in eight people. Theft is a fact of life, and it's not unusual for copper to be stolen out of air conditioners and from the walls in unoccupied houses.

### 6. Code violations

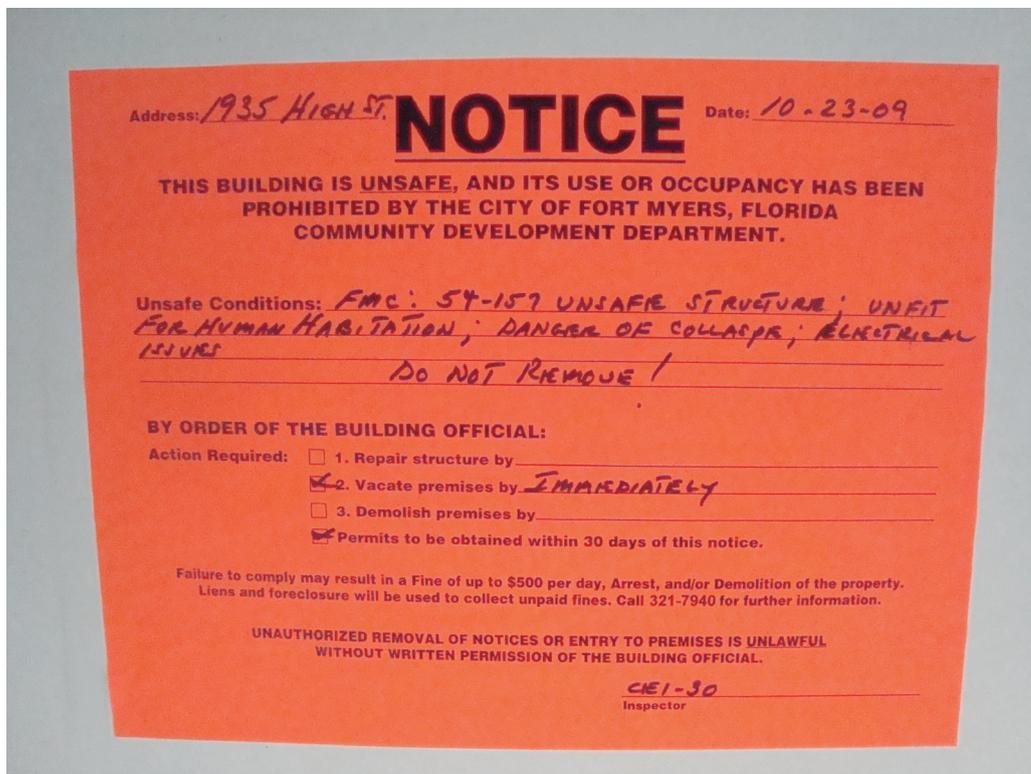
Counties have the power to slap 'code violations' on properties that breach the local code requirements. Examples of minor infringements include the grass being too long, or rubbish accumulating on the property. Major infringements include unsafe buildings, in which case the county might come and demolish the property and charge you the cost of the demolition. Before buying any real estate you should call the local county and check to see if there are any code violations on the property. Some counties have online registers.

### Further notes (cont'd)

Examples of an air conditioner as it should look, and as it looks after it has been vandalised for the copper.



Example of a code violation. This building is about to be demolished unless urgent repairs are completed.



# Overcoming Risks

1. Being realistic
2. Upside vs. Downside Risk
3. Having adequate insurance
4. Due diligence
5. Prevention is better than the cure

TIMING: DVD ..... Approx. time .....

## Further notes

Mitigating housing risk is largely common sense, so it is a mystery why so many seemingly sensible investors don't take the time and care to reduce it.

### 1. Being realistic

Having a realistic approach is a good start, and this means buying your deals one at a time rather than trying to buy a street or suburb in one go. Prove to yourself you can buy and manage one property before trying to do 10 or 20!

### 2. Upside vs. downside risk

Always ask yourself whether the rewards of being right are high enough to compensate you for the risks of being wrong.

### 3. Having adequate insurance

If you can't afford house and public liability insurance, you shouldn't be investing in the first place.

### 4. Due diligence

Due diligence simply means isolating and testing the key assumptions in the investment transaction. A lot more information is given on this topic later on.

### 5. Prevention is better than cure

It's ultimately quicker, and cheaper too!

# Rewards

- Scale
- Profitability
  - Cashflow
  - Capital Gains
  - Quick Cash



TIMING: DVD ..... Approx. time .....

## Further notes

So far we've covered the reasons for investing in the United States, the reasons against, and the three main types of risks – can you remember them? Let's now round out our discussion by looking at some real-life examples of the potential rewards, split across cash flow, capital gains and quick cash.

## My Best Deal



191 Monticello Avenue, NJ

## Further notes (cont'd)

### Capital gains deal (Tommy Senatore)

This property was bought as a tax lien, meaning Tommy paid the owner's property taxes (a total of \$25,000) and took a lien against the property as security. Then, when the owner did not pay Tommy back in time, Tommy foreclosed and became the new owner of the building.

Tommy's strategy was to gradually renovate to increase the cash flow. Later on, he became more creative when he sold to another party and carried back the finance.

Net Rental (5 years @ \$4,500 pcm)	\$270,000
+ Refinanced From Bank	\$120,000
+ Deposit On Sale	\$100,000
+ Interest (5 Years on Carry Back)	\$150,000
+ Final Payment (Less Bank Payout)	\$320,000
<b>= Total Cash Back</b>	<b>\$960,000</b>

Tax Lien	\$25,000
+ Rehab Costs	\$80,000
<b>= Total Cash Down</b>	<b>\$105,000</b>

Cash Back	\$960,000
÷ Cash Down	\$105,000
<b>= Cash on Cash Return (Project)</b>	<b>914%</b>

### Quick cash deals (Tommy Senatore)

Over the page are two examples of deals Tommy did to make quick cash profits.

Further notes (cont'd)

### 250 Poe Av Nth

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



App. Value	\$25,930
Purchase	\$5,700
Costs	\$100
Sale Price	\$10,500
Profit	\$4,700

### 3421 Rock Ck. Dve

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



Auction Starts 07/20/2009 09:00 AM ET <a href="#">Place Bid</a>	Auction Type: Case #: Certificate #: Opening Bid: Parcel ID: Property Address: Assessed Value:	TAXDEED 02-5229 266-2007 \$10,415.14 402220357902 3421 ROCK CREEK DR PORT CHARLOTTE, 33948 \$104,092.00 Name on Title HomeStar
---	--	---

App. Value	\$104,092
Purchase	\$42,600
Costs	\$Nil
Sale Price	\$50,000
Profit	\$7,400

### Your notes

In your own words, what rewards do you see that are of benefit to you by investing in the U.S.? What risks are there that you feel could not be sufficiently mitigated?

# Your Constraints



1. Time
2. Money
3. Skill

TIMING: DVD ..... Approx. time .....

## Further notes

There are three constraints that afflict every investor, and which must ultimately be tackled and conquered if success is to be achieved. They are:

### 1. Time

Time is your most precious commodity. Rarely do people wish for more money on their deathbed. But more time... that's another matter. Are you excited about spending more time in your job? If not, then why not sacrifice some of the time you spend doing something you don't like, and allocate those precious hours to your investing. Don't make the mistake of thinking you can do more. The smarter approach is to cull activities that are unproductive (or were part of the old you) rather than trying to cram more in.

### 2. Money

We all have a finite amount of money. Make sure you use yours wisely. Where possible, preserve your capital and use someone else's money – even if it means you have to give back some of the profits. Real estate is a game best played in a team, not in isolation.

### 3. Skill

It's little use having time and money if you don't have the skills to use and multiply it wisely.

# Risk Equation

1. How much money will you risk?
2. For how long?
3. For what minimum return?
4. For how much of your effort?

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## Further notes

Now that you know the key risks and rewards, it's time to give them a context by considering the financial and non-financial parameters of your investing. These include:

1. How much more are you willing to risk? Think carefully about this, especially if you will be borrowing against your home or another precious asset.
2. The financial risk associated with your money should not be indefinite. With this in mind, how long are you willing to 'lend' that money to your investment, or by what date do you want the money back?
3. What, in percentage or dollar terms, is the minimum return you want?
4. How much time, and how much effort, are you willing to go to in order to try and earn your profit? A little? A lot? How many hours per week?

## Your notes

Thinking about the next 12 months, try to answer all four of the questions above.

# Session Conclusion

Considering Your Constraints

Do Your **UPSIDES**

Outweigh Your **DOWNSIDES?**



TIMING: DVD ..... Approx. time .....

## Further notes

The aim of the conclusion is to get you to think about what you have to gain from your U.S. investing (i.e. your upsides), and weigh that up against what you have to lose (i.e. your downsides). Only then can you determine which is greater.

## Your notes

Please list your upsides and downsides in the table below:

Upsides of U.S. investing	Downsides of U.S. investing

Do your upsides outweigh your downsides?

# USA Property Investing

## Session 2

---

### 6 Easy Steps To Setting Up



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#### Further notes

Assuming you are happy with the risks and rewards associated with investing in U.S. property, the next logical topic is discussing how to set up your investing operations.

This session outlines the six recommended steps. They are:

1. Decide on your desired investment strategy.
2. Consider the most appropriate accounting structure.
3. Organise your tax identification number (the equivalent of an Australian tax file number).
4. Open a U.S. bank account.
5. Establish a U.S. presence and point of contact.
6. Locate and build your U.S.-based advisory team.

You don't have to follow the sequential order highlighted above, but it has been included in that order because it makes the most sense. For example, when opening a U.S. bank account you will be asked for your U.S. tax identification number.

### Further notes (cont'd)

If the points listed on the previous page appear a little daunting, here's something that may build your confidence: if you understand how Aussie property works, then you should be fine, as although there are occasional significant differences, for the main part U.S. property investing and Aussie property investing are remarkably similar. For example, if you were investing in Aussie real estate then you'd need to consider the six points above too.

It's normal that your lack of knowledge will cause fear and doubt. However, the more I look into U.S. property, ignoring the problems caused by time, distance and being a non-citizen, the more convinced I am that U.S. property investing is actually easier than Aussie property investing.

### Your notes



# Session Question

How are you going to A-B-M-S  
US properties from the  
other side of the world?



TIMING: DVD ..... Approx. time .....

## Further notes

There's a whole lot more to property investing than simply buying a property. Purchasing is something that happens early on in the investing journey; it's after you buy that you can use skill to drive your profits higher. PropertyInvesting.com has created an acronym to remind investors of the four phases of the investing cycle. It's 'A-B-M-S', and it stands for:

- Analyse
- Buy
- Manage
- Sell.

Just like in Australia, it's easy to buy U.S. property – you sign a contract and send money over to close the deal. Any fool can do that. However, it's what happens *after* you purchase and as you seek to get maximum cash flowing from your asset that the real investing game begins. Therefore, before you jump in, make sure you have a plan for each of the four phases:

- A plan for how to analyse potential properties (from afar)
- A plan for how to buy it (from afar)
- A plan for how to manage it (from afar)
- A plan for how to sell it (from afar).

# Step 1: Strategy

## Constraints

- Time
- Capital
- Skill
- Risk

TIMING: DVD ..... Approx. time .....

## Further notes

The best place to start when considering the most suitable investment strategy for your needs is by assessing the practical constraints on your life that limit what you can physically (and humanly) do.

Quite often, investors like to fantasise about how they are going to A-B-M-S their property portfolio in a utopian way because the daily concerns of life will no longer impact them.

For example, they imagine that after working a full day in a job, they will be able to come home and be mentally fresh and alert with their investing. Or that they will be able to attack their investing with gusto... after first eating and then putting the kids to bed. Or that having no money isn't a concern to worry about.

I call these people 'Field of Dreams' investors – after the 1989 Kevin Costner movie of that title. The movie's tagline was 'Build it and they will come'... the idea of a farmer building a baseball field in the middle of a corn paddock where long-dead greats of baseball would come and play again.

Does that sound like a long shot to you? Well, so is thinking that you are going to be a gun investor on the basis of limited capital and 30 minutes of useable C-grade investing time each day. 'Buy it and the profit will come' doesn't work in real-life investing.

# Step 1: Strategy

## Constraints

- Time
- Capital
- Skill
- Risk

## Outcome

- Cashflow
- Cap. Gain
- Cash Sums

TIMING: DVD ..... Approx. time .....

## Further notes

The three possible investment returns are:

### 1. Cash flow returns

Periodic but reasonably predictable cash injections, usually from interest, dividends or rental returns. Such returns can be used to supplement or replace your income, thereby progressively freeing you from the need to have to work.

### 2. Capital gains returns

Appreciation in your investment assets caused by an increase in their value over time. Such profits are not usually as predictable, nor as controllable, as cash flow returns.

### 3. Cash sums (quick cash) returns

Also called 'manufactured' profits, such returns are made by adding value to the property (rehab, renovating, developing), or by spotting a bargain and on-selling soon after purchasing (flipping). These 'cash sum injections' can help build your capital base quickly.

Of course, the above returns are not exclusive, meaning you can have combinations of one, two or three types of returns in a single deal.

# Step 1: Strategy

## Constraints

- Time
- Capital
- Skill
- Risk

## Outcome

- Cashflow
- Cap. Gain
- Cash Sums

## Strategy

- Tax Liens
- Direct Property

TIMING: DVD ..... Approx. time .....

## Further notes

Having established your constraints and the investment outcome you desire, the final step is to nominate which U.S. investing strategy is your most suitable:

### 1. Tax liens

This strategy is where you pay the unpaid rates on the property and receive an interest return (of up to 18%) until the property owner pays you back. You are not the property owner and thus there are less hassles, but you have security against the property in the event that you are not repaid.

This investment is more suitable for time-restricted investors who have a lower appetite for risk but still want an attractive return. You only get a cash flow return (i.e. no capital gains), and this is paid at the end of the transaction as a lump sum.

### 2. Direct property ownership

As the name suggests, you buy the property and as such have all the guts and glory that comes with being the property owner, including the opportunity to get all three returns. This investment is more suitable for investors who want ongoing higher returns and who have the necessary time, capital, skill and risk tolerance to earn them.

# Step 2: Structure



- Quick
- Cheap
- Personal Risk

TIMING: DVD ..... Approx. time .....

## Further notes

With step 1 behind us, the second step involves thinking about the entity you are going to purchase in: either your own name, or some other entity that provides additional asset protection and tax-planning opportunities.

The advantages of buying in your own name are:

- It's quick. You can sign a contract without providing additional information that is sometimes requested, such as incorporation details.
- It doesn't cost anything extra to buy in your own name, whereas you will have to pay the cost of setting up and maintaining a corporate structure.

However, you also face a huge problem:

- There is no separation of personal and investment assets, so if you are sued, either personally or as a result of your investments, all your personal and investments assets are potentially up for grabs.

Because of the legal liability issues, and since U.S. citizens are generally a litigious bunch, if you plan to buy direct property then it would be sensible to use a limited liability structure. As a tax lien holder, since you are not the legal owner, there is not the same risk of being sued – so you can own tax liens in your own name without the same risk.

# Step 2: Structure



- Quick
- Cheap
- Personal Risk

- Asset Protection
- Complex
- Costs

TIMING: DVD ..... Approx. time .....

## Further notes

The graphic below is a quick introduction to the usual structuring options in the U.S.:

## Basic Entity Options



As is the case in Australia, you have the option of creating a hybrid or corporate structure in which to do your investing.

### Further notes (cont'd)

The advantages of using a corporate structure are increased asset protection (because your personal assets are separated from the assets of the company), and increased tax-planning opportunities (in most cases). The disadvantages of having a separate structure are the increased complexity and additional cost.

As always, it is a question of the cost vs. benefit in weighing up the right structure for your investing needs and your time, money, skill and risk constraints.

### Your notes

# Step 3: Tax ID



- ITIN
- Form W7
- Additional Docs

**TIMING:** DVD ..... **Approx. time** .....

## Further notes

In the U.S., unless you have a tax identification number you will be subject to having withholding tax deducted from your profits, which can be as high as 30% of the income, or 10% of the gross sales price of the property! Furthermore, practically, unless you have the correct tax identification, you will find it difficult to buy and sell property and tax liens.

Even if you are not planning on investing in your own name, you should seriously consider applying for an Individual Tax Identification Number (ITIN). It is free to apply (although quite an administrative process) and it's convenient to have, in case you are ever asked for it.

The form to apply for an ITIN is called a 'W7'.

Google the following terms and print out the associated forms:

- Form W7
- Form W7 Instructions.

Hint: Make sure you select the links to the IRS website (you can tell by the web address which begins [www.irs.gov](http://www.irs.gov)). Note: The links have not been included here in case they change.

If you want to know more about U.S. withholding tax, then google that too, as the IRS has a comprehensive publication on the topic that makes for therapeutic bedtime reading for insomniacs.

## Further notes (cont'd)

Looking at your W7 form, the first part that needs to be completed is the reason why you are applying for an ITIN. Reading through the instructions, you will see that the correct box is box (h) Other, and writing in Exemption 1(d) provides a valid reason because you are required to provide your ITIN to either the real estate agent or title company (direct property investing) or else the county tax collector (tax lien investing).

However, a problem arises, because you also need supporting documentation in the form of a signed letter from the person or entity that is required to deduct the withholding tax from your payment.

**Reason you are submitting Form W-7.** Read the instructions for the box you check. **Caution:** If you check box b, c, d, e, f, or g, you must file a tax return with Form W-7 unless you meet one of the exceptions (see instructions).

- a  Nonresident alien required to get ITIN to claim tax treaty benefit
- b  Nonresident alien filing a U.S. tax return
- c  U.S. resident alien based on days present in the United States filing a U.S. tax return
- d  Dependent of U.S. citizen/resident alien Enter name and SSN/ITIN of U.S. citizen/resident alien (see instructions)
- e  Spouse of U.S. citizen/resident alien
- f  Nonresident alien student, professor, or researcher filing a U.S. tax return or claiming an exception
- g  Dependent/spouse of a nonresident alien holding a U.S. visa
- h  Other (see instructions) **Exemption 1 (d)** Additional information for a and f: Enter treaty country and treaty article number

**1(d) Individuals who are receiving distributions during the current tax year of income such as pensions, annuities, royalties, dividends, etc., and are required to provide an ITIN to the withholding agent (for example, an investment company, insurance company, or financial institution, etc.) for the purposes of tax withholding and reporting requirements.**

**1(d) A signed letter or document from the withholding agent, on official letterhead, showing your name and evidencing that an ITIN is required to make distributions to you during the current tax year that are subject to IRS information reporting or federal tax withholding.**

Tommy Senatore has liaised with his local county to produce such a letter for those who use his services to apply for an ITIN. Here's an example:

The Lee County Tax Collector is required by Florida Statute 197 to sell tax certificates for unpaid property taxes. The certificate holder who purchases a tax certificate earns interest on a certificate redeemed and the Lee County Tax Collector reports that interest to the Internal Revenue Service.

In order for our office to report any interest earnings, we request that you provide our office with an Individual Taxpayer Identification Number (ITIN).

You can organise such a letter yourself, but it will be quicker and less hassle if you simply get Tommy to organise it for you. The cost is very reasonable considering the work and running around at his end.

## Further notes (cont'd)

**W-7** Application for IRS Individual Taxpayer Identification Number

FOR IRS USE ONLY

Reason you are submitting Form W-7. Check the appropriate box for the box you check. Caution: If you check box 6, 6, 6, 6, 6, 6, you must file a tax return with Form W-7 unless you meet one of the exceptions (see instructions).

Signature of applicant (see instructions)

Signature of preparer (see instructions)

Name (see instructions) Name as listed if different	1a	First name	Middle name	Last name
	1b	First name	Middle name	Last name
Applicant's mailing address	2	Street address, apartment number, or rural route number. If you have a P.O. box, see page 4.		
		City or town, state or province, and country. Include ZIP code or postal code where appropriate.		

After stating your reason for applying, the next step is to write down your name. Make sure it is exactly the same as it is on your supporting identification.

Hint: Instead of filling in the form by hand, to prevent the IRS staffer misreading your handwriting, it's smarter to: 1) download the form to your computer; 2) complete it using Adobe Acrobat, and 3) then print out the 'typed' version for signing.

In regards to the mailing address, if you are planning on using Tommy's virtual office services then note down his address (1202 SE 8TH PLACE, SUITE B, CAPE CORAL, 33990), otherwise use your other chosen U.S. address or your home address in Australia.

**W-7** Application for IRS Individual Taxpayer Identification Number

FOR IRS USE ONLY

Reason you are submitting Form W-7. Check the appropriate box for the box you check. Caution: If you check box 6, 6, 6, 6, 6, 6, you must file a tax return with Form W-7 unless you meet one of the exceptions (see instructions).

Signature of applicant (see instructions)

Signature of preparer (see instructions)

Foreign (non-U.S.) address (if different from above) (see instructions)	3	Street address, apartment number, or rural route number. Do not use a P.O. box number.		
		City or town, state or province, and country. Include ZIP code or postal code where appropriate.		
Sex (see instructions)	5	<input type="checkbox"/> Male <input type="checkbox"/> Female		

Next you need to complete your foreign address (most likely your home address in Australia), your birth information (remember the date format is MM/DD/YYYY) and whether you are male or female.



Insightful Intelligent Information



# Options

1. Do it yourself
  - Cost b/w \$50 and \$100 for notary
2. Tommy to verify, support & lodge
  - Once off charge of US\$249
3. Pay your US accountant

TIMING: DVD ..... Approx. time .....

## Further notes

If you're on a budget, you can definitely do the leg work yourself and save money. Alternatively, if you want it sooner, then use Tommy Senatore's office do it for you. You can also have your U.S. accountant handle your application.

Summary of your options and the steps to follow:

Yourself	Tommy Senatore	Accountant
1. Print out the W7 form	1. Print out the W7 form	Accountant will prepare the form, and, after you have signed it, will arrange for it to be lodged with the IRS
2. Complete it	2. Complete it	
3. Organise ID	3. Organise ID	
4. Have ID notarised	4. Send signed form and ID to Tommy	
5. Send signed form and notarised ID to the IRS	5. Tommy will notarise, lodge and advise	
6. Wait for letter		

**Cheapest but takes longer**

**Good value**

**Convenient but costly**



**Tommy Senatore and TLD International LLC**  
are pleased to be able to provide Australian investors  
looking to create and maintain a U.S. real estate portfolio  
with the following cost effective solutions:

#### **ITIN Application Assistance**

Save time and get started sooner by having us assist you to prepare and lodge your application for a U.S. Individual Tax Identification Number (ITIN).

**This service includes:**

- Phone and email support with completing the Form W7
- Notarising ID documents
- A support letter from the Lee County Tax Collector
- Lodging your application with the IRS
- Scanning and emailing your ITIN notification when it arrives
- Free follow up of any problems or issues

Instead of taking 12 weeks, our clients usually hear back from the IRS within 4 weeks.  
Don't muck around – use us and get started sooner!

**Only  
US\$249**

#### **Virtual U.S. Office**

Create a U.S. presence by using the offices of TLD International in Florida as your mail, phone and physical address.

**This service includes:**

- Using our office address as your U.S. address
- Have your U.S. mail sent to our office, where we will open, scan and email it on to you
- Banking U.S. checks in your U.S. bank account
- Answering phone calls and emailing messages
- Opportunity to rent an office at heavily discounted rates if visiting Florida

Minimum of six months, then monthly thereafter with a 30 day notice of cancellation.

**Only  
US\$29  
per month**

**To find out more or to take advantage of either service then please:  
Call the office on +1 239 541 1517 (remember we are 16 to 19 hours behind)  
or Email: [admin@taxlienanddeed.com](mailto:admin@taxlienanddeed.com)**

# Step 3: Tax ID



- ITIN
- Form W7
- Additional Docs

- EIN
- After setting up entity, apply online

TIMING: DVD ..... Approx. time .....

## Further notes

If you want to create an entity (such as a limited liability entity) then it's best to seek independent professional advice from an experienced U.S. accountant or attorney. For instance, paying for some time with James Simango (from US Tax Central) would be a good investment.

If you're planning to invest using a new entity, then that entity will most likely have to be separately registered with the IRS and thereby included in its own right in the broader U.S. tax system.

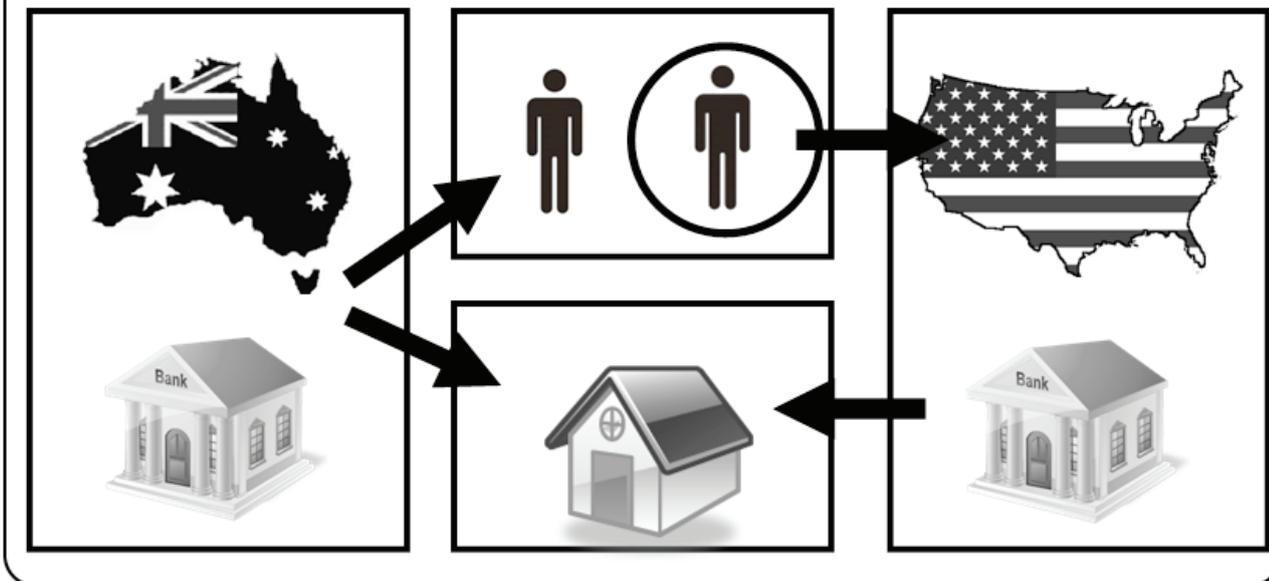
When a non-individual entity registers with the IRS, it is given an Employer Identification Number (EIN). Since it doesn't matter whether it has any employees, the name EIN is a little misleading, but nonetheless, this is the number your new entity must apply for.

The offline document to use to apply is a Form SS-4; however, the process can be done online and a number is issued on the spot.

## Your notes

Take a look at the process yourself by doing a Google search on 'apply for an EIN'.

# Step 4: Bank A/c



TIMING: DVD ..... Approx. time .....

## Further notes

Having identified the right strategy and structure for your investing needs and applied for your tax identification, the next step is to open a U.S. bank account. No doubt you have an Australian bank account, and it is from this account that you will 'send' the money overseas – either:

- a. To the U.S. bank account of the party handling your asset purchase (the arrow pointing down from Australia to the property), or
- b. To a U.S. bank account in your own name (the arrow pointing up from Australia to the person), or
- c. To the U.S. bank account of your U.S. entity (the arrow pointing up from Australia to the person with a circle around them)

In the case of (b) and (c), you would then draw U.S. funds from your U.S. bank account to pay for the asset (the arrow pointing from the U.S. bank to the house).

## Your notes

Describe the chain of events that would unfold if you bought a tax lien from the county by wiring money from your Australian bank account.

# Example – Part A

You	Your Australian Entity
<b>Assets</b> <ul style="list-style-type: none"> <li>• Cash           -\$10,000</li> <li>• Loan   Aus Entity   \$10,000</li> </ul>	<b>Assets</b> <ul style="list-style-type: none"> <li>• Cash           \$10,000</li> </ul> <b>Liabilities</b> <ul style="list-style-type: none"> <li>• Loan You   \$10,000</li> </ul>

TIMING: DVD ..... Approx. time .....

## Further notes

Okay – for those of you who like details, it's time for a quick lesson in accounting. Here's the 'accounting' to record the money trail of a transaction where your 'Australian entity' lent money to your 'U.S.entity'. For easy reporting, I have assumed an exchange rate of AUD1 = USD1.

The transaction begins with the left-hand box, which records you taking \$10,000 from your personal bank account and lending it to your Australian entity (perhaps your family trust, for instance).

In your books you have \$10,000 less cash in your account, but now have a loan to your Australian entity for \$10,000.

In the books of your Australian entity, it has \$10,000 more cash in the bank, but a liability to you for \$10,000.

## Your notes

# Example – Part B

Your Australian Entity	Your Australian Entity
<b>Assets</b> <ul style="list-style-type: none"> <li>Cash \$10,000</li> </ul>	<b>Assets</b> <ul style="list-style-type: none"> <li>Loan USA \$10,000</li> </ul>
<b>Liabilities</b> <ul style="list-style-type: none"> <li>Loan You \$10,000</li> </ul>	<b>Liabilities</b> <ul style="list-style-type: none"> <li>Loan You \$10,000</li> </ul>

TIMING: DVD ..... Approx. time .....

## Further notes

Next, your Australian entity sends the money overseas to your U.S. entity. To do that it withdraws the \$10,000 cash, and makes a loan to your U.S. entity for the same amount. After this transaction, each of the parties is as follows:

Step 1: You	Step 2: (to) your Oz entity	Step 3: (to) your U.S. entity
<b>ASSETS</b>		
Cash: to Oz entity ↓\$10,000	Cash: from you ↑\$10,000	Cash: from Oz entity ↑\$10,000
Loan: to Oz entity ↑\$10,000	Cash: to U.S. entity ↓\$10,000	
	Loan: to U.S. entity ↑\$10,000	
<b>LIABILITIES</b>		
	Loan: You ↑\$10,000	Loan: Oz entity ↑\$10,000

The accountants are happy because the net movement in assets is equal to the net movement in liabilities for each entity.

# Example – Part C

Your Australian Entity	Your USA Entity
<b>Assets</b> <ul style="list-style-type: none"> <li>• Loan USA \$10,000</li> </ul>	<b>Assets</b> <ul style="list-style-type: none"> <li>• Cash \$10,000</li> </ul>
<b>Liabilities</b> <ul style="list-style-type: none"> <li>• Loan You \$10,000</li> </ul>	<b>Liabilities</b> <ul style="list-style-type: none"> <li>• Loan AUS \$10,000</li> </ul>

TIMING: DVD ..... Approx. time .....

## Further notes

The transaction finishes with \$10,000 arriving in the U.S. bank account of your U.S. entity, thereby creating the following situation for each party:

- 1. For you**
  - You have \$10,000 less cash in your personal bank account.
  - You have a new asset: a \$10,000 loan from you to your Australian entity.
- 2. For your Australian entity**
  - You have received \$10,000 cash, and paid out \$10,000 cash, so your net bank account balance hasn't moved.
  - You have a new asset: a \$10,000 loan from your Australian entity to your U.S. entity.
  - You have a new liability: a \$10,000 loan owing to you.
- 3. For your U.S. entity**
  - You have received \$10,000 cash.
  - You have a new liability: a \$10,000 loan owing to the Australian entity.

# Bank Account Options

## Within Australia

- HSBC
- 3 Account Types
- \$200 Set Up Fee
- Debit MasterCard
- Application Forms

TIMING: DVD ..... Approx. time .....

## Further notes

As you will be receiving/collecting U.S. funds, you will need to deposit U.S. cash and U.S. checks (that's how they spell it – not cheques). You could deposit them into your Australian bank account, but the fees to do so, the exchange rate you are offered, and the time it takes for the funds to clear, can be horrendous.

Clearly, it will be convenient to have a U.S. bank account to deposit them into and, if you don't want to go to the U.S. to set up an account in person, HSBC has a facility for Australian residents to have an operational U.S. bank account. For more information about how to set up such an account, and to find out about the fees and charges, call the HSBC international banking centre on 1300 131 623.

At the time of writing there were three options that had varying fees, depending on the minimum account balance you maintained. All accounts allowed depositing and writing of U.S. checks, and came with a U.S. debit card (either a Visa or Mastercard). (Note: Having a letter of support from HSBC asking for an ITIN may be sufficient documentation to support your ITIN application.)

## Your notes

Call HSBC's international banking team and talk through the options for setting up a U.S. bank account.

# Bank Account Options

## Within Australia

- HSBC
- 3 Account Types
- \$200 Set Up Fee
- Debit MasterCard
- Application Forms

## Within USA

- Range of Options
- Various Account Types
- Usually \$0 Set Up Fee
- Debit Visa/MasterCard
- Passport / ITIN / EIN

TIMING: DVD ..... Approx. time .....

### Further notes

Alternatively, if you want a wider range of more cost-effective options, you can always travel to the U.S.A. and open up an account at your chosen branch of your chosen bank.

Ideally you would already have received your ITIN, but, if not, ask the bank for a letter of support asking you for it and include it as supporting documentation for your ITIN application.

The bank will want to see your passport or other supporting ID, so make sure you bring them with you.

### Your notes

# Money Transfers

## 1. Your Bank

- International Money Transfer / Wire
- Branch / Treasury Desk

## 2. OzForex

TIMING: DVD ..... Approx. time .....

### Further notes

When it comes time to physically sending money overseas, you will need to go to a broker (called a foreign exchange dealer) to handle the transaction. All the major banks offer this service, and many of them allow it in online banking (but beware, the rate offered online isn't usually the best you can negotiate).

Alternatively, you will either need to visit a branch or else deal with the bank's treasury desk. In my experience, the rate you are offered at the branch is usually set in stone, but the rate offered by the treasury desk is somewhat negotiable. I would also say that the exchange rates offered and fees charged by the major banks are... well... firmly in the bank's favour. After being stung too many times, I looked around at other options and came across OzForex. They are like a no-frills exchange dealer, and as such, they get the job done for a significantly cheaper cost and can offer a better exchange rate.

### Your notes

See if you can look up the 'benchmark' rate the four major banks are offering. A word of caution though: some banks are sneaky and publish the money market (wholesale) rate rather than the rate they will offer you. Make sure you know what rate you are working with.

# OzForex - Example

## SPOT DEAL QUOTE

VIEW CURRENCY TREND 

Quote Details	
Current Date & Time	8 December 2010 10:41:38 AM
Sell Amount	AUD 10,212.42
Buy Amount	USD 10,000.00
Our Rate AUD/USD	<b>0.9792 (1.0212)</b> 

» Next Step: View quote in detail and select beneficiaries.

Rate comparison with other providers			
Other Providers	AUD cost before fees	More Info.	Time checked *
:: 0.9636 *	\$10,377.75	<a href="#">St.George</a>	08/12/10 09:37:0
:: 0.9621 *	\$10,393.93	<a href="#">Westpac</a>	08/12/10 09:37:0
:: 0.9588 *	\$10,429.70	<a href="#">ANZ</a>	08/12/10 09:36:5
:: 0.9580 *	\$10,438.41	<a href="#">NAB</a>	08/12/10 09:37:0
:: 0.9558 *	\$10,462.44	<a href="#">Commonwealth</a>	08/12/10 09:36:5

TIMING: DVD ..... Approx. time .....

## Further notes

The graphic here reveals how much more competitive OzForex was when compared to the major banks on the basis of transferring the Australian equivalent of USD10,000.

You can see that OzForex offered the best rate, and that I was \$450 better off than taking the same deal offered by the Commonwealth Bank! Given the product you're buying is homogenous (i.e. a U.S. dollar is a U.S. dollar), there is no obvious benefit in paying more!

If you decide to deal with OzForex (as I do), make sure when you set up your account that you mention you are a client of PropertyInvesting.com. We will receive a small part of the OzForex commission, but the benefit you gain is that we have negotiated a further volume discount, so the rate you are quoted will be ultra-competitive.

It's easy (and free) to set up an OzForex account. You can do it online at [Ozforex.com.au](http://Ozforex.com.au) and then call on 1300 300 524 to say you're a client of PropertyInvesting.com in order to gain access to the better rate.

# OzForex – To US

1. Book trade
2. Pay for trade (BPay / Direct Debit)
3. OzForex sends money to US
4. Arrives in your nominated account
  - Usually 24 – 48 hours later

TIMING: DVD ..... Approx. time .....

## Further notes

When using a bank, they will simply deduct the money from your account and wire it across to your 'nominated beneficiary' (i.e. your U.S. or other nominated bank account).

Since OzForex is not a bank, and hence you don't have money on deposit with them, the process is a little different. To begin with, you 'book your trade' online by signing in to your account and requesting a 'quote'. If you are happy to proceed then you progress through the screens to nominate your desired beneficiary.

After checking the transaction and finalising the online request, you will shortly thereafter receive a phone call from an OzForex representative confirming the details.

Now your deal is locked in and you must 'pay them' the agreed amount of Australian dollars. You can do this via direct debit transfer or BPAY. Be wary of your account limits, as you may need to request a special transfer at a branch if you need to pay OzForex more than your online banking limits allow.

Once OzForex has cleared funds, they will send it to your nominated beneficiary bank account. It takes 24 to 48 hours for the money to arrive in your U.S. account (assuming they are business days – not weekends or public holidays).

Note: OzForex can send the money to any beneficiary account you like, including the county, title company, etc.

# OzForex – From US

1. Book trade
2. Pay for trade (wire money)
3. OzForex sends money to Aus
4. Arrives in your nominated account
  - Usually 24 – 48 hours later

TIMING: DVD ..... Approx. time .....

## Further notes

When it comes time to send money back to Australia, you can use the services of your U.S. bank, or, alternatively, you can use OzForex again.

If you use OzForex then you follow the normal online request, and then wire U.S. dollars from your U.S. bank account to the U.S. OzForex account. OzForex will send the Aussie dollar equivalent to your nominated Australian bank account.

Again, after wiring the money to OzForex, it takes 24 to 48 hours for it to turn up (assuming they are business days – not weekends or public holidays).

## Your notes

Take a moment and sketch a flow chart of how you plan to send money from Australia to your overseas bank account, and how you plan to send the money back again.

# Step 5: US Presence

1. On The Ground
  - Registered Agent
2. Physical Location
3. US Phone Number

TIMING: DVD ..... Approx. time .....

## Further notes

We have now covered four of the six steps needed to set up in the U.S.A. They were:

1. Clarify your strategy
2. Clarify your structure
3. Prepare and lodge your U.S. tax identification application
4. Organise to open a U.S. bank account.

You will find it easier to do business with Americans if it looks and seems like you are operating within their established system, and this means having a familiar address and phone number and an accepted person as your point of contact.

In regards to your contact person, if you use a corporate structure then you will need to appoint a 'registered agent' – someone who lives in the U.S. and is the legal contact for people who want to get in touch with your entity. In Australia, we would call this the registered office, except in the U.S. you need to nominate a person and an address. This will normally be your U.S. accountant or U.S. attorney and his/her office.

Your notes

# Physical Location

- **Virtual Office Services**
  - Google Search
  - \$20 to \$50+ pcm
- **Set Up Your Own Mail Box**
  - Who will check it?

TIMING: DVD ..... Approx. time .....

## Further notes

Since it gives the impression of increased professionalism, it's smart to appear as though you have an office in the States, even though you don't.

Luckily, these days, you can easily 'hire' the services of a virtual office, where someone will answer 'your phone', collect your mail, and even rent you office or meeting space if you need it. Of course, all this comes at a fee.

Alternatively, you can hire your own mailbox. However, if you do, you will also need to organise for someone to collect your mail and deal with it accordingly.

## Your notes

Do a Google search on 'virtual offices U.S.A.' and become familiar with what options and costs are involved with creating a U.S. presence.

# US Phone Number

- Virtual Office Services
- Magic Jack
- Skype
- US Mobile Phone

TIMING: DVD ..... Approx. time .....

## Further notes

Having a U.S. phone number is essential, because you will encounter problems using your Aussie phone number due to the different format. U.S. phone numbers are in the format ( \_\_\_ ) \_\_\_ - \_\_\_\_, whereas Aussie phone numbers are ( \_\_ ) \_\_\_\_ - \_\_\_\_\_. Furthermore, aside from the functional issues, if you use your Aussie number you will also need to add in the international code. There is not normally space to do this when registering online for tax lien and foreclosure auctions.

Why face this problem if you can easily overcome it by having a U.S. number, which you can organise by:

1. Using a serviced or virtual office
2. Buying a magic jack ([www.magicjack.com](http://www.magicjack.com))
3. Buying a Skype number ([www.skype.com](http://www.skype.com))
4. Buying a U.S. mobile phone with international roaming.

In the early days, using Skype will be your most cost-effective option. As you become more serious, you may decide to use a magic jack. Serviced offices and a U.S. mobile phone will be more expensive.

# Tommy's Service

- Use his office address in Florida
- Mail scanned and emailed to you, or else sent to you in Aus at your cost
- Use his office phone number
- US \$29 per calendar month

TIMING: DVD ..... Approx. time .....

## Further notes

Tommy Senatore also offers a virtual office service for those who want to establish a U.S. presence at a cost-effective price. In a nutshell, you can:

- Use his office (in Cape Coral, Florida) as a mailing address and point of contact; and
- Use his office phone numbers as your office number, and have his staff take calls and send messages via email; and
- Have his staff collect and open your mail, and then scan and email it you.

At the time of writing, Tommy is willing to offer this for US\$29 a month, with a minimum term of six months.

See page 68 or visit his website, [www.taxlienanddeed.com/virtual-office](http://www.taxlienanddeed.com/virtual-office), for more information.

## Your notes

## Step 6: Your US Team

- Attorney
- Accountant
- Banker
- Realtor
- Rental Manager

How Do You  
Find A Good One?

**Trial & Error**

TIMING: DVD ..... Approx. time .....

### Further notes

The sixth and final step for Aussie investors setting up in the U.S.A. is to select and create your team of advisers.

Remembering that 'money follows management', having a good team is the most important of all steps, as it's the easiest to overlook when beginning (in favour of buying), but the most helpful when you are trying to make things happen from Australia.

Given your physical absence, your management team needs to be your 'eyes and ears' by assisting you with the Analysis-Buying-Managing-Selling phases of your U.S. real estate transactions. They also need to help you be aware of, and adhere to, various compliance and legal issues (e.g. lodging tax returns).

Your team would normally comprise your:

1. Attorney, as your legal adviser
2. Accountant, as your tax and business adviser
3. Banker – who needs to have the authority and skills to help you manage your money and settle transactions from afar
4. Realtor – someone to manage your offers and purchases
5. Rental manager – someone to manage your rental properties, and to be your advocate as needed with tenancy issues.

# Building Your Team

- Referrals
  - Realtors
  - Investors
- Attending seminars
- Walk in off the street

TIMING: DVD ..... Approx. time .....

## Further notes

It will be difficult to find and build your team, but persevere as it is often a matter of trial and error.

That said, when sourcing potential team members, the best place to start is by asking for referrals from the realtors you are making offers through, and from other investors that you meet or liaise with. Of course, you can also do internet searches or ask for assistance on online investor forum boards.

Another option is to attend U.S. investment seminars, where you can meet and network with fellow investor participants.

Finally, if all else fails, when you are over in the U.S. simply walk off the street and into the offices of a potential desired adviser and start asking questions.

## Your notes

# 5 Team Building Tips

1. Meeting is better than phoning
2. Bribing isn't smart business!
3. Be honest with your plans

TIMING: DVD ..... Approx. time .....

## Further notes

Regardless of whether you are investing locally or abroad, here are several useful tips to remember:

1. You will be taken more seriously if you meet face to face rather than trying to start a relationship over the phone or via email.
2. Sometimes investors will try to 'sweeten' the relationship by offering incentives to receive 'better service'. While this can work, thinly veiled bribes to perform at expected service levels are not a good way to build a trusting relationship.
3. Honesty is the best policy, so don't be afraid to be candid with your plans and needs, without being overly dramatic or grandiose about your hopes for the future. The normal good practice of 'under-promising and over-delivering' is better than appearing like a tyre-kicker full of unproven potential.

## Your notes

# 5 Team Building Tips

1. Meeting is better than phoning
2. Bribing isn't smart business!
3. Be honest with your plans
4. Discuss how they can help from afar
5. Seek testimonials from their clients

TIMING: DVD ..... Approx. time .....

## Further notes

Continuing on the list of team-building tips:

4. In being honest, outline that you are an overseas investor and discuss your expectations for ways that you can communicate. That is, will you use the phone, email or other means? How often will you communicate? At what times? What are the roles and responsibilities? How will performance be assessed? Also, so that you know the likely cost, always ask 'What are your fees?'
5. Once you've found an adviser you feel comfortable with, don't be afraid to ask them if it would be okay to speak with one or two of their clients who would ideally be in a similar position to yourself. Knowing that you are not alone, and that the adviser has a client database of people like you, will be comforting.

## Your notes

# Session Conclusion

Are you prepared to put in the necessary initial and ongoing effort to make this work?



TIMING: DVD ..... Approx. time .....

## Further notes

For most investors, the most glamorous and exciting part of investing is looking for deals and making offers. In many ways, this is like dating, and, just like dating, once the dazzle of the initial attraction has worn off, the strength of the relationship is determined by the quality and quantity of communication.

It would be a disaster to own a portfolio of U.S. property without having a team on the ground to help you manage it, because it is poor use of your own time and you add massive amounts of risk to your investing.

Having demonstrated the importance of first establishing a team and then remaining in communication with them, the question to leave you with as a conclusion to this session is: are you prepared to put in the necessary initial and ongoing effort to ensure that your U.S. investing activities are profitable and rewarding?

Hopefully the answer is yes, but if not, then I'd reconsider whether overseas investing is really something you should pursue further.

## Your notes

# USA Property Investing

## Session 3

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### Capital Management



TIMING: DVD ..... Approx. time .....

#### Further notes

Hopefully you have identified that when you invest overseas, not only do you need to manage your team and the property you acquire, you also need to pay closer attention to managing your money, given the added complexities associated with different currencies and multiple bank accounts.

In other words, your overseas investing success will require continual diligence in three main areas:

1. Your management of your *team*
2. Your management of the A-B-M-S phases of the *physical property*
3. Your management of your *money* – both in sourcing it to begin with, sending it overseas, and bringing it back.

#### Your notes



# Sources Of Finance

## 1. Savings

- Job
- Business
- Investment



TIMING: DVD ..... Approx. time .....

### Further notes

Savings represents the surplus left after you've deducted the money you spend from the money you earn. Many people lack the discipline to defer their spending or delay their gratification, and therefore have no savings.

The first fundamental rule of wealth creation is that you must spend less than you earn. If you fail to master this, then no matter how much money comes in, more will always be going out and hence your life will be a continual financial struggle.

Savings can come in three forms:

1. From your job, with income being your salary or wage
2. From your business, with income being your profits
3. From your investments, with income being rent, dividends or interest.

A quick snapshot of your reliance on your job can be gained by calculating the percentages of your sources of income. Have a go in the table below.

Income from <b>employment</b>	\$	%
Income from <b>business(es)</b>	\$	%
Income from <b>investment(s)</b>	\$	%
<b>Total</b>	<b>\$</b>	<b>100%</b>

# Sources Of Finance

## 2. Realised Equity

- Sale
  - Real Estate
  - Other Assets



TIMING: DVD ..... Approx. time .....

### Further notes

Realised profits are another source of funds for your overseas investing.

When referring to gains or profits, accountants often use the terms 'realised' and 'unrealised'. The difference is simply whether or not the gain has been converted to cash – that is, whether the gain is still theoretical or unreal, or whether it has been proven and converted into cash. For example, an unrealised capital gain is your property's theoretical appreciation in value over the time you've owned it. While you can borrow against a portion of this gain, the gain is not real, as the value of the property is only an estimate. On the other hand, a realised gain is made when the property is sold and the profit is quantifiable because the gain has been converted into cash. Periodic cash returns from dividends, rent and interest are also realised profits. Unrealised profits can increase or decrease with further market movements, whereas realised profits are final.

In summary, selling an asset to redeem its capital value and convert unrealised gains into cash profits can boost your available funds for overseas investing. What assets do you own that could be sold to release money for your overseas investing?

### Your notes

At the moment, how much of your annual profit is real and how much is unreal? Is it what you expected?

# Sources Of Finance

## 3. Unrealised Equity

- Borrowing
  - Real Estate
  - Other Assets



TIMING: DVD ..... Approx. time .....

### Further notes

Equity comes in two forms:

1. The difference between the value of the asset and the loan against it, and
2. The increase in the asset's value after you've bought it.

For example, imagine you bought an investment property for \$200,000 in 1995 and, at the time, financed the purchase with a loan of \$160,000 and \$40,000 of your own money. At that moment you had \$40,000 equity.

Since then, the property has doubled in value and is now worth \$400,000. Furthermore, you have been diligent and have managed to repay half of the original mortgage. How much equity do you have now?

While the quick answer is equity of \$320,000, the better answer identifies each equity component, namely:

- |  |           |                   |
|--|-----------|-------------------|
| • Equity at the time of purchase:        | \$40,000  | (\$200k - 160k)   |
| • Equity from the appreciation in value: | \$200,000 | (\$400k - \$200k) |
| • Equity from the repayment of the loan: | \$80,000  | (\$160k - \$80k)  |

### Further notes (cont'd)

Since equity-related profits are not taxable until after they've been realised (i.e. sold), and given most lenders will allow you to borrow a portion of your unrealised equity, borrowing against paper profits is seen as a tax-effective way of accessing unrealised capital gains.

If you do this, remember that in order to create wealth:

1. The value of the asset being borrowed against can't fall, and/or
2. The return on the asset you acquire needs to be greater than the interest you pay on the loan on your unrealised equity.

Given the prospect of unfavourable exchange rates, borrowing in Aussie dollars to finance U.S. property adds more risk to the entire proposition of overseas investing.

### Your notes

Use this space to list your major assets, the amount of equity you have, and the potential borrowing capacity you may be able to access.

Asset	Value	Debt	Equity (Value – Debt)	Borrowing capacity (80% of equity)
<b>Total</b>				

# Sources Of Finance

## 4. Mainstream US Lenders

- FICO Score
- SSN
- US Income
- Assumable Mortgages



TIMING: DVD ..... Approx. time .....

### Further notes

To reduce your exposure to adverse foreign exchange movements, it's good investing sense to use (i.e. borrow) U.S. dollars to pay for your U.S. investments.

Trying to get an Australian financier to lend against U.S. security will be extremely difficult, mainly because of the quality of the security, but also because most Australian financiers only lend in Australian dollars.

You will also have difficulty borrowing from mainstream U.S. lenders. Aside from the tightening in credit policies that occurred after the global financial crisis, non-resident U.S. investors are unlikely to have U.S. income to support their U.S. loan application.

Furthermore, to borrow money in the U.S. you will need to have a credit score (called a FICO score). Since you can only be 'scored' once you have credit, the lack of a score impinges on your ability to get a loan.

In some instances, provided the seller and the lender agree, you may be able to assume the mortgage on the property you are buying. This offers a glimmer of hope, but it should not be expected or considered mainstream.

### Your notes

Read up on what a FICO score is and how it is calculated by doing a Google search on 'FICO score'.

# Sources Of Finance

## 5. Non-Mainstream US Lenders

- Private lenders
- Vendor carry back
- Lease option



TIMING: DVD ..... Approx. time .....

### Further notes

While the door will probably be shut on borrowing from mainstream U.S. lenders, it's a different story with non-mainstream lenders. Non-mainstream lenders tend to be more creative and less constrained by the traditional loan-qualifying rules.

For example, there are many organisations that specialise in 'hard money loans'. Such borrowings are usually at lower loan-to-valuation ratios (say max. of 65%) and higher interest rates (around double what banks charge). They are also for shorter time periods and so, while you may get a loan, the financing may only be for a few years.

Alternatively, you may be able to negotiate with the person selling the property (i.e. the vendor) so that he/she/it carries back part of the purchase as a loan. For example, you might agree to buy a property for \$50,000 on the condition the vendor carries back \$40,000 at X% interest, meaning you have to make Y repayments over Z time.

Finally, you might be able to lease-option (also called 'rent to own') the property. This is a creative investing technique that you can independently research – it is outside the scope of this product.

### Your notes

Do Google searches on 'hard money lenders' and 'lease option buyer financing'.

Venus Avenue, Zephyrhills, Florida, United States  
Address is approximate

15 Lot Mobile Home Park		Cash Flow	
Purchase Price	\$400,000	Rent	\$79,800
Deposit	\$50,000	- Expenses	\$25,800
Owner Finance	\$350,000	- Interest	\$26,675
		= Cash Flow	\$27,325
		CoCR	54.65%

## Aran's Deal

TIMING: DVD ..... Approx. time .....

### Further notes

Aran Dunlop is an Australian investor who has been building his U.S. property portfolio using as little of his own money as possible.

Following the advice of his mentor, Stu Silver, he has turned his attention to acquiring mobile home parks. Perhaps the closest thing we have to mobile home parks in Australia is caravan parks. However, caravans are portable and caravan park tenants are mainly interested in holiday leasing, whereas mobile homes are more permanent, as are the tenants who live there.

In this case study, Aran had to contribute \$50,000 of his own money and the vendor carried back \$350,000. Ignoring principal loan repayments, Aran's capital will be returned in less than two years.

### Your notes

**Commercial Contract**  
FLORIDA ASSOCIATION OF REALTORS

1. PURCHASE AND SALE: DUNLOP CAPITAL, LLC, ARAN DUNLOP MM AND/OR ASSIGNS ("Buyer") agrees to buy and TEMS PROPERTIES INC. ("Seller") agrees to sell the property described as: Street Address: 38420 VENUS AVE, ZEPHYRHILLS FL 33542

Legal Description: ZEPHYRHILLS COLONY COMPANY LANDS PB 1 PC 35 WEST 247.14 FT OF 512 OF TRACT 21 & WEST 220.00 FT OF N1/2 OF TRACT 28 and the following Personal Property: SEE SCHEDULE B

2. PURCHASE PRICE: \$ 400,000.00

(a) Deposit held in escrow by \$ 5,000.00

(b) Additional deposit to be made within days from Effective Date \$

(c) Total mortgages (as referenced in Paragraph 3) \$

(d) Other: SELLER FINANCING, SEE ADDENDUM \$ 350,000.00

(e) Balance to close, subject to adjustments and provisions, to be made with cash, locally drawn, certified or cashier's check or wire transfer \$ 45,000.00

3. THIRD PARTY FINANCING: Within days from Effective Date ("Application Period"), Buyer will, at Buyer's expense, apply for third party financing in the amount of \$ or % of the purchase price to be amortized over a period of years and due in no less than year and with a fixed interest rate not to exceed % per year or variable interest rate not to exceed % at origination with a lifetime cap not to exceed % from initial rate, with additional terms as follows:

**Addendum to Contract**  
dated 9/17/2010 between:  
TEMS PROPERTIES INC, Sellers, and,  
DUNLOP CAPITAL LLC, ARAN DUNLOP MM Buyers  
on the Property known as 38420 VENUS AVE ZEPHYRHILLS FL 33542

If any of terms of this addendum conflict with the contract, then the terms of this addendum rule. The contract is now modified as to the following terms and conditions:

1) The Buyers will have 45 days to conduct due diligence, and contract is subject to Buyers' approval of it. The Due Diligence period will begin when Seller gives Buyers all the items on Schedule B (list of personal property) and Schedule C (Mandatory Due Diligence section) which are necessary for Buyers to secure financing and make an informed decision. By the end of the due diligence period the Buyer will send a written letter to Seller stating whether Buyers wish to continue forward or not. If Buyers do not wish to continue, Buyers' escrow deposit will be returned immediately.

2) Sellers will give Buyer a purchase money mortgage on the property at the following terms: \$350,000 amount of seller financing, 7.75% interest rate, 15 amortization years, balloon on the date of 10/16/2024, payable monthly, assumable and non-recourse. This mortgage can be created by a wrap-around mortgage, a subject-to mortgage, or by any other means approved by the Seller and Buyer.

All other terms and conditions of the contract will remain in force.

Buyer: ARAN DUNLOP MM Date: 9/17/2010  
Seller: J. BLOOM Date: 9/17/2010

2) Sellers will give Buyer a purchase money mortgage on the property at the following terms: \$350,000 amount of seller financing, 7.75% interest rate, 15 amortization years, balloon on the date of 10/16/2024, payable monthly, assumable and non-recourse. This mortgage can be created by a wrap-around mortgage, a subject-to mortgage, or by any other means approved by the Seller and Buyer.

**TIMING:** DVD ..... Approx. time .....

**Further notes**

The logistics of organising vendor carry back financing are usually quite straightforward. All that is needed in Florida is for there to be an addendum in the contract (the wording is usually standard) that specifies the term, interest rate and repayments.

As you will be new to all this, it will be essential to get legal advice from your U.S. attorney to make sure you understand your contractual rights and responsibilities.

Not every vendor will be willing to carry back finance, however – if you are buying property that is someone else's investment (as opposed to a home or foreclosure), then your chances of negotiating vendor carry back are significantly higher.

**Your notes**

How many \$50,000 U.S. properties could you afford using 100% of your own capital? How many U.S. properties could you afford assuming you negotiated vendor carry back finance and only wanted to leave 30% deposits? How many properties could you afford if you negotiated seller financing with 10% deposits?



# Finance Principles

- Cash is king
- Use your finite capital wisely
- Think about the big picture
- One deal at a time

TIMING: DVD ..... Approx. time .....

## Further notes

Being a cash buyer means you'll be able to negotiate the best price and terms; however, you only have so much cash and so you need to spread your precious seed capital wisely.

In the near term, the best option may be to buy your first handful of deals using your own money, and then, once you are more familiar with the investing landscape in your chosen area, to begin to explore more creative finance options.

Where there is a will, there is a way, so instead of worrying about how you are going to pay for your 'dream' U.S. property portfolio, by all means cast the big vision, but then chip away at it one deal at a time.

## Your notes

# Session Conclusion

How many properties are you thinking of buying? How will you finance them?



TIMING: DVD ..... Approx. time .....

## Further notes

The question to end this session with is: how many properties are you thinking of buying, and how will you finance them?

Remembering that 'money' (or capital) was one of the three constraints you will have to overcome (the others being time and skill), it's prudent to think about how much of your own money you are going to risk by investing it overseas.

Prudent management says that you wouldn't want to put all your investment eggs in the one basket, because if that basket fails, then all your investments will be at risk.

While it's good to have a big goal – ideally more than you are comfortable with and beyond your current capital resources to afford – your goal must also be achievable or else you will give up when the going gets tough.

As such, at least for your first direct property purchase, assume you will be paying 100% of the purchase price in cash, and, to limit your risk, I recommend that you keep the purchase price to below \$40,000.

The more money you have invested in a deal, the higher the return must be to justify the risk. Thus, a deal where you have 100% of your money invested should provide a higher return than if you only had 30% of your capital invested.

# USA Property Investing

## Session 4

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### Investing In Tax Liens



TIMING: DVD ..... Approx. time .....

#### Further notes

Tax liens (also known as tax certificates) are an investment opportunity for investors to purchase property-backed debt at attractive interest returns.

Because you are not the property's owner, you do not have to worry about collecting rent or paying expenses. Furthermore, if you are not repaid by the due time, you can foreclose on the underlying property to seek repayment.

If you invest according to the simple rules laid out in the pages ahead, except for exchange rate losses, it will be very difficult to ever lose money investing in tax liens.

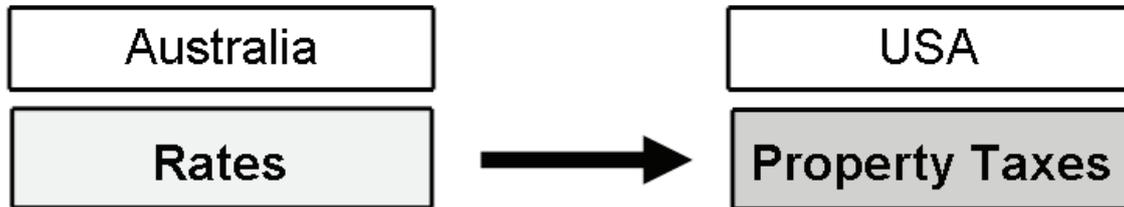
For this reason, tax lien investing offers investors who have large amounts of cash and/or unused equity a high-yielding and highly secure investment vehicle in which to 'park' it.

The biggest downside to tax lien investing is that you don't know when you will be repaid. It could be a day later, or it could be two or more years down the track.

Still, if you want to invest in real estate without taking on the risks of direct property ownership, tax liens could be the answer to your investing prayers.

#### Your notes

# Comparisons



TIMING: DVD ..... Approx. time .....

## Further notes

In order to explain what a tax lien is, let's begin by comparing how property owners are treated in Australia and the U.S.

In Australia, property owners must pay rates to their local council. This is usually an annual charge that is based on two variables: the property's capital improved value, and the 'rate in the dollar'.

Although the name is different (property taxes vs. rates), the concept of homeowners having to pay for local government services is the same in the U.S. as it is in Australia.

However, because of different boundaries in political responsibility, U.S. property taxes pay for more services than rates do in Australia.

## Your notes

If you own your own home, check to see how much you pay each year in local council rates. What is the capital improved value of your home? What 'rate in the dollar' does the local council charge you? What percentage of your property's value does your annual rates charge represent? What services does this 'buy'?

# Property Taxes

**Property Taxes are a contribution each property owner must pay to fund:**

- Schools, police, fire stations, hospitals, libraries, garbage disposal, sewers, road and sidewalk maintenance, parks, miscellaneous expenditures

TIMING: DVD ..... Approx. time .....

## Further notes

In the U.S., property taxes levied by the local county need to pay for more services than their Aussie rates equivalent. For example, U.S. property owners need to also pay for their local schools, police department, fire department and hospitals.

This seems unusual to us, because these services are paid for by the state and/or federal governments in Australia. Yet, on the flip side, although their property taxes are higher than our rates, in Florida at least, the stamp duty payable on real estate transactions is extremely low (compared to what we pay).

Remember too that the population in the U.S. is a lot bigger than in Australia. For example, Florida's population of 18.5 million people represents 84% of Australia's entire population!

In addition to property taxes, some states charge a separate income tax (such as Hawaii and Oregon, which at the time of writing charge up to 11%). States that do not charge income tax are: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

## Your notes

# Property Taxes

- Generally 1% to 3% of the property's value
- Levied annually
  - Different States have different due dates
- Let's look at a sample...

TIMING: DVD ..... Approx. time .....

## Further notes

In Australia, annual council rates are usually about 0.2% of a property's value. In the U.S., because the expenses of local counties are much higher, the revenue base must also increase, and so annual property taxes are between 1% and 3% of the property's value. For example, property taxes on \$500,000 home are about \$11,000 per annum.

Every county levies a different amount for property taxes, and although property taxes are an annual charge, the due dates vary.

A sample of the documentation that is sent from the Lee County tax collector's office is provided on the next four pages.

## Your notes

Lee County Taxing Authorities  
P.O. Box 1270  
Fort Myers, Florida 33902-1270

PRESORTED  
FIRST-CLASS MAIL  
US POSTAGE  
PAID  
FT MYERS, FL  
PERMIT# 00

10516667

## NOTICE OF PROPOSED REAL ESTATE PROPERTY TAXES

154467\*\*\*\*\*AUTO\*\*5-DIGIT 33990

**DO NOT PAY  
THIS IS NOT A BILL**

### ADDITIONAL INFORMATION (continued)

#### Portability

Portability means that you can transfer some or all of your previous home's "Save Our Homes" benefit to your new home in an amount up to \$500,000.

The "Save Our Homes" benefit is the **difference** between the assessed value and market value of a homestead property.

Visit our website at [www.leepa.org](http://www.leepa.org) for more information or to file online.

#### Agricultural Classification

An Agricultural Classification is the designation of land by the Property Appraiser pursuant to F.S. 193.461. The assessment is based on an agricultural use value.

**HOW DO I QUALIFY?** To qualify for Agricultural Classification, a return must be filed with the Property Appraiser between January 1<sup>st</sup> and March 1<sup>st</sup> of the tax year. Only lands which are used for bona fide agricultural purposes shall be classified agricultural. "Bona fide agricultural purposes" means good faith commercial agricultural use of the land. The Property Appraiser, prior to classifying such lands, may require the taxpayer or the taxpayer's representative to furnish such information as may reasonably be required to establish such lands are actually used for a bona fide agricultural purpose.

For more information please contact our Agricultural Department.

#### What if I do not agree with my 'Values'?

If you believe that your assessment does not represent the fair market value of your property, you may file a petition with the Clerk of Court for a hearing before the Value Adjustment Board (V.A.B.). This Board is created by State Law and is comprised of five members. The Board appoints Special Magistrates who are qualified appraisers or attorneys, independent of the Property Appraiser's Office, to conduct valuation hearings. The Special Magistrates are appointed only to determine whether the appraised value of the property is fair market value as of January 1<sup>st</sup>. Petitions to the Board and further details concerning this process can be obtained by visiting the Property Appraiser's Office or our website at [www.leepa.org](http://www.leepa.org).

**Petitions must be received (not merely post-marked) by the Clerk of Court before the date that appears on the T.R.I.M. Notice. The petition must be accompanied with a \$15.00 per parcel filing fee.** Submission with the petition of all requested information ensures proper review of your request.

**MAKING A CASE:** You can prevail at V.A.B. by presenting evidence and testimony that your property's assessed value is not market value. The fact that your assessed value increased or decreased from last year is not a basis to alter this year's assessment.

Problems common to the neighborhood are already considered in the sales of properties sold. Also, you cannot base your case on personal hardship, such as living on a fixed income or an inability to pay taxes. You may, however, be eligible for the Tax Deferral Plan or Installment Payments offered through the Tax Collector's Office. Information regarding these plans is available at the Tax Collector's website ([www.leetc.com](http://www.leetc.com)).

**THE V.A.B. HEARING:** Value Adjustment Board hearings begin in the fall. While an attorney is not required, one may represent you. Both the Property Appraiser and Taxpayer present evidence and testimony to a Special Magistrate. After the Special Magistrate hearing, the V.A.B. will notify you in writing of their decision. If you accept the decision, do nothing further. If you disagree with the V.A.B. decision, you may file a Circuit Court civil action pursuant to Florida Statute 194.171. Additional information can be obtained from our office, or you may contact the Lee County Clerk of Court's Office at (239) 533-2328 regarding the filing process.



### Dear Lee County Property Owner:

As you can see the Notice of Proposed Property Taxes has a new format. Due to changes in the Florida Statutes, the opportunity presented itself for this office to review and revise this form to meet the new requirements and save money. The new format that we designed is expected to save at least \$25,000.

Your property values are important to me, especially in these difficult economic times. It is our duty to provide you, the taxpayer, with sound, reliable, and equitable assessments.

Your Notice provides your "Proposed Taxes" for 2010 and the "Property Valuation" of your property as of January 1, 2010.

If you agree that the fair market of your property, based on 2009 sales, is at least as much as shown in the Notice, you do not have to do anything. However, if you have any questions about this value, assessment reductions or exemptions, we encourage you to contact this office.

**The Property Appraiser does not determine the amount of tax you pay. Taxing Authorities determine the tax rate based on money needed to fund their budgets.** Should you have any questions regarding the amount of taxes you are paying, please contact the respective authorities listed on the front page of your Notice.

It is my goal as your elected Property Appraiser to provide fair assessments for all property. Feel free to contact us. Our door is always open.

Respectfully,

Kenneth M. Wilkinson, CFA  
Lee County Property Appraiser

**Lee County Property Appraiser's Office**  
Physical Address: 2480 Thompson St.,  
4th Floor

Fort Myers, FL 33901  
Mailing Address: P.O. Box 1546  
Fort Myers, FL 33902  
Website: www.leepa.org

Office Hours: Monday - Friday  
8:30am to 5:00pm

Directions: Downtown Fort Myers at the corner of  
Dr. Martin Luther King Jr. Blvd. & Fowler Street  
(4th Floor Constitutional Complex)

#### Real Property Hotline

(239) 533-6100 Fax (239) 533-6160

#### Tangible Personal Property Hotline

(239) 533-6140 Fax (239) 533-6289

Outside of 239 Area Code (866) 673-2868

Lee County Clerk of Court (239) 533-2328  
(V.A.B.)

Lee County Tax Collector (239) 533-6000  
(Tax Bill)

### ADDITIONAL INFORMATION

#### Homestead Exemption and "Save Our Homes"

Homestead Exemption is a constitutional benefit that exempts up to \$50,000 from the assessed value of your property.

After the base year of the qualified Homestead Exemption application, the assessed value cannot increase more than 3% per year because of the "Save Our Homes" (SOH) benefit. This constitutional benefit that Mr. Wilkinson authored in 1992 was enacted to prevent homestead property owners from being taxed out of their homes in the face of a rapidly increasing market.

For property with Homestead Exemption, SOH limits or "caps" the increases to your assessed value (not your taxes). That capped value is the SOH assessed value. From the SOH assessed value, exemptions are subtracted to arrive at the taxable value.

#### 10% Non-Homestead Limitation

Enacted as a part of Amendment 1 in 2008, a 10% assessment increase limitation applies to eligible non-homestead property that did not change ownership or control in the previous year.

This limitation has the same premise as the Save Our Homes assessment reduction. Once a base year is established (2008 is the base year or the year the property was purchased thereafter) the assessed value of the property cannot increase more than 10%.

Any new construction or improvements to the property that were not previously assessed, will be added to the "limitation amount" and will be included the following year.

There is no application necessary to receive the 10% Non-Homestead Limitation.

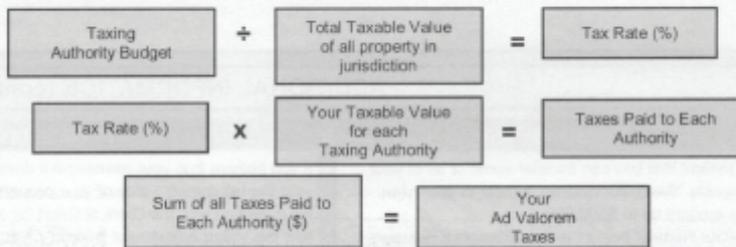
#### What is "Recapture"?

If your market value decreased and your assessed value increased without any new construction, you may be feeling the effects of "Recapture". Recapture means that any property that has an **assessed value less than market value**, shall be increased.

**For Homestead properties:** The "Recapture Rule" **requires** Property Appraisers to raise the **assessed value** by the maximum of 3% or the annual Consumer Price Index (C.P.I.) change, whichever is less, as long as the assessed value is lower than market value in any given year.

**For Non-Homestead properties:** Florida Statute 193.1555(3) states "Property subject to the 10% cap shall be reassessed annually with the increase in assessment not to exceed 10%". This increase should occur whether or not the just value increases, as long as assessed value does not exceed just value (regardless of the C.P.I.).

#### Calculating Ad Valorem Taxes



#### Additional Homestead Exemption

If you currently receive a homestead exemption and your property value exceeds \$50,000, you will automatically receive the additional homestead exemption. No application or other action is necessary to receive this benefit.

Effective January 1, 2008, the additional exemption of up to \$25,000 will apply to all levies except those by school districts and other assessments for special benefits.

This additional exemption of \$25,000 applies to assessed values between \$50,000 and \$75,000. If your property value is less than \$75,000, the exemption amount will be less than \$25,000.

#### Senior's Exemption

All Lee County residents who are 65 or older (as of January 1st) who qualify for and receive the homestead exemption and whose 2009 annual gross adjusted household income does not exceed \$25,873, are eligible to receive the exemption. Although you must make an initial application (January 1st - March 1st), an annual re-application is not required as long as your income does not exceed the annually adjusted limitation.

#### Tangible Personal Property

Effective for the 2008 tax year, all Tangible Personal Property Accounts, such as businesses and rentals will receive a \$25,000 exemption. A DR-405, Tangible Personal Property Tax Return, must be filed with this office in the initial year of application to be eligible.

**TAX BILLS ARE MAILED NOVEMBER 1**

ADDITIONAL INFORMATION CONTINUED ON REVERSE



## PROPERTY VALUATION

	LAST YEAR 2009	THIS YEAR 2010
<b>MARKET VALUE</b>	<b>\$60,330</b>	<b>\$34,100</b>

Market value (also called "Just Value") is the most probable sales price for your property in a competitive, open market. It is based on a willing buyer and a willing seller.

If you feel the assessment of your property does not reflect fair market value, or if you are entitled to an exemption or classification that is not reflected on this form, please contact:  
**Lee County Property Appraiser's Office**  
 2480 Thompson Street, 4th Floor, Fort Myers  
 or P.O. Box 1546, Ft. Myers, FL 33902  
 Phone: **(239) 533-6180**

### VALUE CALCULATIONS

TAXING AUTHORITY	ASSESSED VALUE*		EXEMPTIONS		TAXABLE VALUE**	
	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR
<b>COUNTY:</b>						
LEE COUNTY CAPITAL IMP	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
LEE COUNTY GENERAL REVENUE	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
LEE COUNTY LIBRARY FUND	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
<b>SCHOOL:</b>						
PUBLIC SCHOOL - BY LOCAL BOARD	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
PUBLIC SCHOOL - BY STATE LAW	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
<b>MUNICIPALITY OR MSTU:</b>						
LEE COUNTY ALL HAZARDS - MSTU	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
LEE COUNTY UNINCORPORATED - MSTU	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
<b>WATER MANAGEMENT DISTRICT:</b>						
SFL WATER MGMT-DISTRICT LEVY	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
SFL WATER MGMT-EVERGLADE CONST	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
SFL WATER MGMT-OKEECHOBEE LEVY	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
<b>INDEPENDENT SPECIAL DISTRICTS:</b>						
ESTERO FIRE RESCUE	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
LEE COUNTY HYACINTH CONTROL	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
LEE COUNTY MOSQUITO CONTROL	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100
WEST COAST INLAND NAVIGATION DISTRICT	\$60,330	\$34,100	\$0	\$0	\$60,330	\$34,100

\*Assessed Value is the market value of your property minus any assessment reductions. The assessed value may be different for levies made by different taxing authorities.

\*\*Taxable Value is the value used to calculate the tax due on your property. Taxable value is the assessed value minus the value of your exemptions.

ASSESSMENT REDUCTIONS	APPLIES TO	VALUE

Properties can receive an **assessment reduction** for a number of reasons. There are limits on how much the assessment of your property can increase each year. For example, the Save Our Homes program and the limitation for non-homestead property are two types of reductions. Certain types of property, such as agricultural land and land used for conservation, are valued on their current use rather than market value. Some reductions lower the assessed value only for levies of certain taxing authorities. If your assessed value is lower than your market value because limits on increases apply to your property or because your property is valued based on its current use, the amount of the difference and the reason for the difference are listed in the Assessment Reduction section above.

EXEMPTIONS	APPLIES TO	VALUE

Any exemption that applies to your property is listed in this section along with its corresponding exemption value. Specific dollar or percentage reductions in assessed value may be applicable to a property based upon certain qualifications of the property owner. In some cases, an exemption's value may vary depending on the taxing authority. The tax impact of an exemption may also vary for the same taxing authority, depending on the levy (e.g., operating millage vs. debt service millage).

You may file a petition for an adjustment with the Value Adjustment Board. It is not mandatory to contact the Property Appraiser prior to doing so. Petition forms are available from the Lee County Property Appraiser's Office and also at [www.leepa.org](http://www.leepa.org).

**TAX INFORMATION**



719070 GS

The taxing authorities which levy property taxes against your property will soon hold PUBLIC HEARINGS to adopt budgets and tax rates for the next year. The purpose of these PUBLIC HEARINGS is to receive opinions from the general public and to answer questions on the proposed tax change and budget PRIOR TO TAKING FINAL ACTION. Each taxing authority may AMEND OR ALTER its proposals at the hearing.

TAXING AUTHORITY		COLUMN 1		COLUMN 2		COLUMN 3
	LAST YEAR'S ACTUAL TAX RATE 2009 (MILLAGE)	YOUR PROPERTY TAXES LAST YEAR 2009	YOUR TAX RATE THIS YEAR IF NO BUDGET CHANGE IS ADOPTED (MILLAGE)	YOUR TAXES THIS YEAR IF NO BUDGET CHANGE IS ADOPTED	THIS YEAR'S PROPOSED TAX RATE 2010 (MILLAGE)	YOUR TAXES IF PROPOSED BUDGET CHANGE IS ADOPTED 2010
<b>COUNTY:</b>						
LEE COUNTY CAPITAL IMP	0.5000	\$30.17	0.5887	\$20.07	0.5000	\$17.05
LEE COUNTY GENERAL REVENUE	3.6506	\$220.24	4.2635	\$146.07	4.2635	\$146.07
LEE COUNTY LIBRARY FUND	0.2844	\$17.16	0.3383	\$11.54	0.3383	\$11.54
<b>SCHOOL:</b>						
PUBLIC SCHOOL - BY LOCAL BOARD	2.2480	\$135.62	2.6311	\$89.72	2.2480	\$75.66
PUBLIC SCHOOL - BY STATE LAW	5.2600	\$317.34	6.1563	\$209.93	5.7670	\$196.65
<b>MUNICIPALITY OR MSTU:</b>						
LEE COUNTY ALL HAZARDS - MSTU	0.0693	\$4.18	0.0820	\$2.80	0.0693	\$2.36
LEE COUNTY UNINCORPORATED - MSTU	0.8398	\$50.67	0.9906	\$33.78	0.8398	\$28.64
<b>WATER MANAGEMENT DISTRICT:</b>						
SFL WATER MGMT-DISTRICT LEVY	0.2549	\$15.38	0.2892	\$9.86	0.2549	\$8.69
SFL WATER MGMT-EVERGLADE CONST	0.0894	\$5.39	0.1013	\$3.45	0.0894	\$3.05
SFL WATER MGMT-OKEECHOBEE LEVY	0.2797	\$16.87	0.3170	\$10.81	0.2797	\$9.54
<b>INDEPENDENT SPECIAL DISTRICTS:</b>						
ESTERO FIRE RESCUE	2.0000	\$120.66	2.2355	\$76.23	2.0000	\$68.20
LEE COUNTY HYACINTH CONTROL	0.0277	\$1.67	0.0322	\$1.10	0.0310	\$1.06
LEE COUNTY MOSQUITO CONTROL	0.2132	\$12.86	0.2485	\$8.47	0.2388	\$8.14
WEST COAST INLAND NAVIGATION DISTRICT	0.0394	\$2.38	0.0464	\$1.58	0.0394	\$1.34
<b>TOTAL TAX RATES:</b>	<b>15.7564</b>		<b>18.3406</b>		<b>16.9791</b>	
<b>TOTAL PROPERTY TAXES:</b>		<b>\$950.59</b>		<b>\$625.41</b>		<b>\$578.99</b>
		<b>COLUMN 1</b>		<b>COLUMN 2</b>		<b>COLUMN 3</b>

**NOTICE OF PROPOSED PROPERTY TAXES EXPLANATION (Section 200.069, Florida Statutes)**

**COLUMN 1—"YOUR PROPERTY TAXES LAST YEAR"** - This column shows the taxes that applied last year to your property. These amounts were based on budgets adopted last year and your property's previous taxable value.

**COLUMN 2—"YOUR TAXES IF NO BUDGET CHANGE IS ADOPTED"** - This column shows what your taxes will be this year IF EACH TAXING AUTHORITY DOES NOT CHANGE ITS PROPERTY TAX LEVY. These amounts are based on last year's budgets and your current assessment.

**COLUMN 3—"YOUR TAXES IF PROPOSED BUDGET CHANGE IS ADOPTED"** - This column shows what your taxes will be this year under the BUDGET ACTUALLY PROPOSED by each local taxing authority. The proposal is NOT final and may be amended at the public hearings shown on this notice. The difference between Columns 2 and 3 is the tax change proposed by each local taxing authority and is NOT the result of higher assessments.

NOTE: Amounts shown on this form do NOT reflect early payment discounts you may have received or may be eligible to receive. (Discounts are a maximum of 4 percent of the amounts shown on this form.)

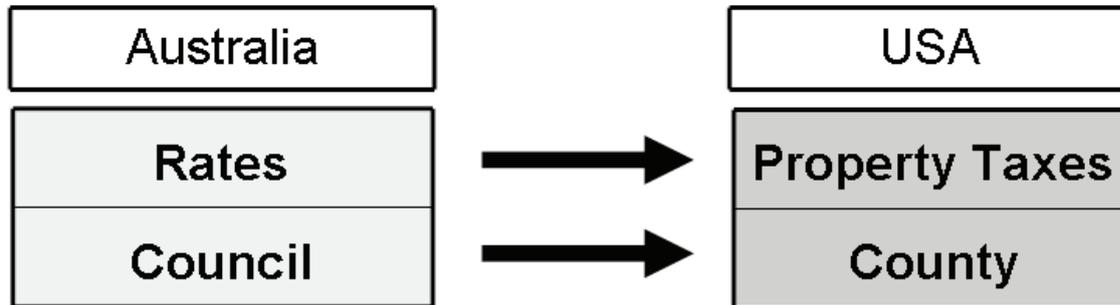
NON-AD VALOREM ASSESSMENTS: Your final tax bill may contain Non-Ad Valorem assessments which may not be reflected on this notice such as assessments for roads, fire, garbage, lighting, drainage, water, sewer, or other governmental services and facilities which may be levied by your county, city, or any special district.

**A Public Hearing on the Proposed Taxes and Budget Will Be Held:**

- COUNTY/MSTU:** 09/08/10 5:05pm Lee County Commission Chambers 2120 Main St. Fort Myers, FL 33901 Phone 239-533-2221
- SCHOOL:** 09/14/10 5:05pm Lee County Public Education Ctr. 2855 Colonial Blvd. Fort Myers, FL 33966 Phone 239-337-8215
- WATER MANAGEMENT DISTRICT:** 09/08/10 5:15pm SFWMD Auditorium Bldg. B-1 3301 Gun Club Rd. West Palm Beach, FL 33406 Phone 561-686-8800
- LEE COUNTY HYACINTH AND MOSQUITO CONTROL:** 09/09/10 5:15pm District Offices 15191 Homestead Rd. Lehigh Acres, FL 33971 Phone 239-694-2174
- ESTERO FIRE RESCUE:** 09/09/10 5:01pm Estero Fire Station 21500 Three Oaks Pkwy. Estero, FL 33928 Phone 239-390-8000
- WEST COAST INLAND NAVIGATION DISTRICT:** 09/10/10 5:01pm Venice City Hall 401 W. Venice Ave. Venice, FL 34285 Phone 941-485-9402



# Comparisons



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## Further notes

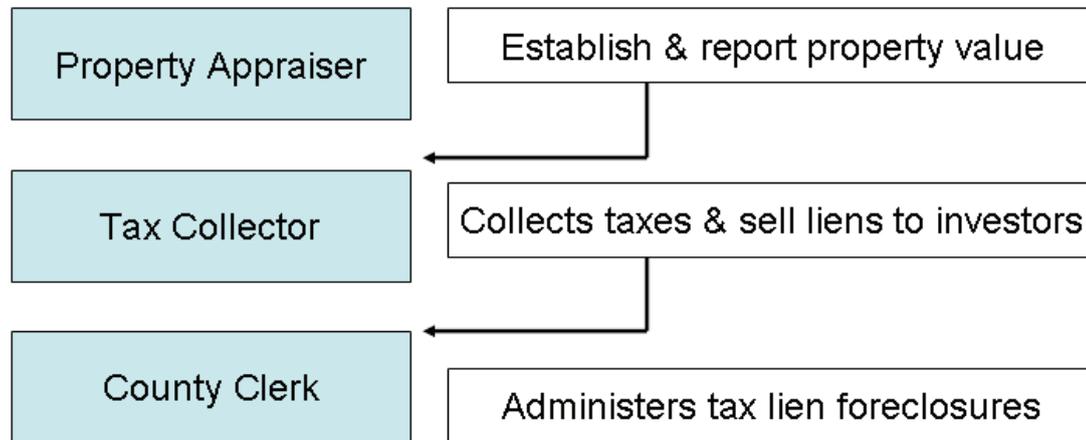
In Australia, the government authority responsible for levying rates is the local council. The equivalent in the United States is the local county.

In Australia, although councillors are elected, the heads of council departments are salaried positions (i.e. staffed by employees).

In the United States, department staff are employed, but the (property) tax collector and property appraiser are elected positions. This changes the dynamic slightly, as they are more attuned to the needs of their constituents. For example, the values assigned by the property appraiser tend to be a little on the low side, because this helps the owner to pay less property taxes.

## Your notes

# Main County Contacts



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## Further notes

As an investor, the three key county parties you will deal with are:

### 1. The property appraiser

A publically elected official who is responsible for assigning a fair value on each property in his/her area for property tax purposes, and is assisted in doing so by employed staff. You will deal with the property appraiser as part of your due diligence in finding out facts on a property you are looking to purchase (or a property with an outstanding property tax bill).

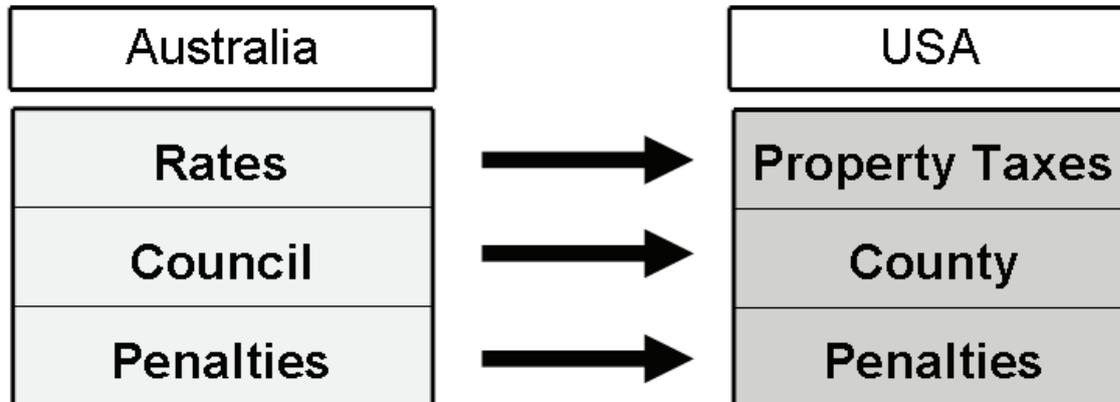
### 2. The tax collector

A publically elected official responsible for collecting and administering property taxes in that county, who is assisted in this role by an employed staff. You will deal with the tax collector when investing in tax liens, and as an owner paying taxes if you invest in direct property.

### 3. The county clerk of courts

A publically elected official who is responsible for assisting, managing and organising court processes and documents. You will deal with the county clerk when seeking to purchase tax deed and mortgage foreclosures.

# Comparisons



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## Further notes

In Australia, if you don't pay your rates on time then you can expect to pay a penalty, and a quick call to my nearby Whitehorse City Council revealed they will slug you 10.5% interest, backdated to the start of the financial year.

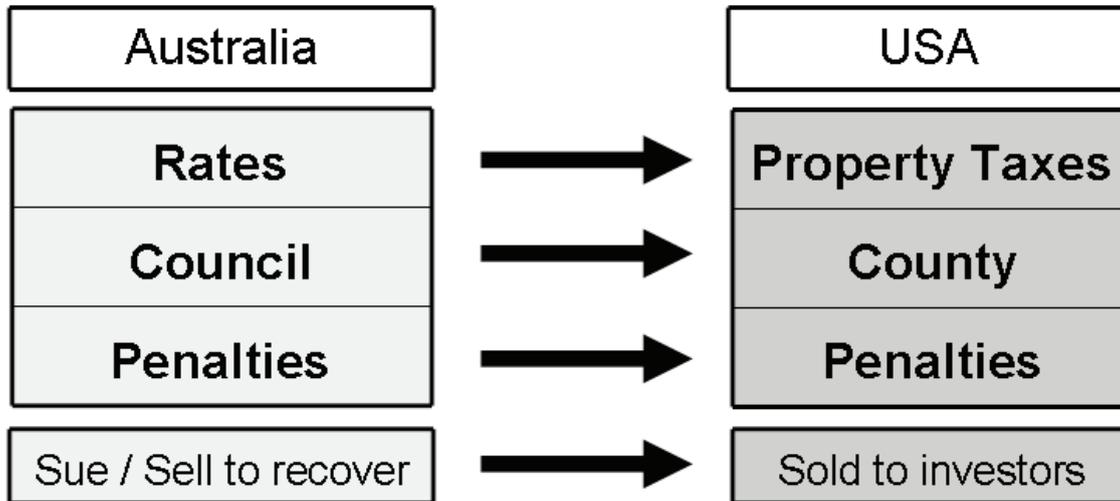
U.S. counties will also slug you with a penalty for not paying your property taxes on time. It is set at a state level, with Florida, for instance, charging a government-mandated 18%. On the flip side, counties will often give property owners a discount if they pay their property taxes early.

A summary of the interest rates levied by each county at the time of writing is provided in the appendix.

## Your notes

Call your local council and ask what penalty interest rate is levied if you don't pay your rates on time.

# Comparisons



TIMING: DVD ..... Approx. time .....

## Further notes

Although the names and some of the details vary slightly, I haven't yet encountered anything jaw-droppingly different about property taxes in the U.S. and council rates in Australia.

Working for our future - today

**Public Notice**  
**Sale of Land for Arrears of Rates**

In accordance with Section 104(3) of the Local Government Act 1993 the Council of the City of Gold Coast hereby gives notice that unless all overdue rates and associated charges are paid together with any costs incurred in the sale procedures on the property listed in the schedule below, such property will be sold by public auction.

All persons intending to bid will be required to register prior to the commencement of the auction. At the time of registration all persons will be required to have in their possession a bank cheque for the amount of \$5000.00 made out to the Gold Coast City Council. You will not be permitted to register unless you bring the cheque with you. This cheque will be tendered and act as full deposit by the successful bidder and will be payable immediately at the conclusion of the auction.

SCHEDULE						
RPD	County	Parish	Situation	Property Name	Area (sq m)	Improvement
L 360 RP91082	Ward	Norang	21 Coolaroo Crescent, Southport	N/A	731	Dwelling
L 33 RP133268	Ward	Gilston	76 Admiralty Drive, Surfers Paradise	N/A	792	Dwelling

The auction shall be conducted on **Wednesday 26 August 2009** commencing at 10am in the Nautilus Room 1 Watermark Hotel situated at 3032 Surfers Paradise Boulevard, Surfers Paradise. Bidding registration will commence from 9am at which time the potential deposit (bank cheque) must be sighted.

All enquiries regarding the terms and conditions of the proposed auction should be directed to  
**Mr Barry Seaton - Acting Coordinator Payments and Recoveries** on (07) 5581 6330 or by email to [barryseaton@goldcoast.qld.gov.au](mailto:barryseaton@goldcoast.qld.gov.au) or  
**Ms Emily Barker - Acting Supervisor Legal Recoveries** (07) 5581 6001 or by email [ebarker@goldcoast.qld.gov.au](mailto:ebarker@goldcoast.qld.gov.au)

Dale Dickson, Chief Executive Officer

 Gold Coast City Council

GC BULLETIN Real Estate Classified - 15x5 (150mm x 161mm) 4colour - SATURDAY 8 August 2009

In Australia unpaid property taxes sit quietly in the background, slowly accruing ongoing penalty interest. Eventually, the council will do one of two things: 1) put it in the hands of a debt collector who will sue the property owner in the magistrates court and get an order for payment, or 2) sell the property at public auction.

The latter doesn't happen very often, but, as the newspaper advertisement at left reveals, it does happen.

In the U.S. though, many counties are unwilling to wait for their property taxes, and so instead of sitting on the debt, they sell it to investors.

# Tax Liens Are...

Unpaid property taxes  
sold by the Country  
to investors  
for a set interest return  
with a lien on the property as security.

TIMING: DVD ..... Approx. time .....

## Further notes

The opportunity for tax lien investors is to pay off a property owner's unpaid property taxes, and in return collect the interest on that debt that would otherwise be paid to the county as a penalty.

Paying off the unpaid property taxes provides the county with the funds it needs to run its schools, hospitals, police force, etc. while also delivering the investor with a government-mandated return on their money. In regards to the property owner, they gain extra time to repay the debt – usually between 18 months and three years.

The security for the debt is a charge against the underlying property on which the property taxes are being levied. That is, if the debt is not repaid in time then the property owner risks losing their property, which will be sold or transferred to generate the funds to repay the investor.

## Your notes

Do you think this system of allowing investors to pay off the unpaid property taxes is fair? Why or why not?

# 1432 SW 53rd Terr, Cape Coral



TIMING: DVD ..... Approx. time .....

## Further notes

Here's an example of a tax lien on a property in Cape Coral – a suburb in the Fort Myers district.

PROPERTY VALUES (TAX ROLL 2009) [HISTORY CHART]		
JUST		199,570
ASSESSED		199,570
PORTABILITY APPLIED		0
ASSESSED SOH		199,570
TAXABLE		149,570
BUILDING		32,760
BUILDING FEATURES	0	INCL. IN BLDG VALUE.
LAND		166,810
LAND FEATURES	11,810	INCL. IN LAND VALUE.
SOH DIFFERENCE		0

Certificate Information		New Search
Certificate	Account	
09-049189	15-45-23-C4-04504.0250	
Status	Tax Year	
REDEEM	2008	
Certificate Holder		
Stephen George McKnight		
1202 SE 8th Pl Ste A		
Cape Coral, FL 33990		
US		
Sale Date	Interest	Face Value
11/2/2009	18.00%	\$6,194.43

This property is a two-bedroom, one-bathroom house with water access at the rear.

For whatever reason, the property owner could not pay his/her property taxes on time, and so the debt became delinquent and the county made it available for sale to investors.

I came along and bought the lien off the county for \$6,194.43 on the 2nd November 2009, and thereafter began earning interest at the rate of 18% per annum.

# Good Deal?

- \$6,194.43 down
- Secured against property worth \$199,570
- Pro rata 18% return
- When will it be redeemed?
  - 1 day to 2 years

TIMING: DVD ..... Approx. time .....

## Further notes

Does this sound like a good deal to you? \$6,194.43 down to get an 18% return, and secured against property worth \$199,570? Going through my head were four questions:

**1. How much of my money do I need to put down?**

\$6,194.43.

**2. How much money back will I receive?**

My investment (\$6,194.43 ) plus interest at 18%.

**3. How much time?**

I didn't know when I was going to be repaid. It could have been one day, or it could have been two years (the maximum time in Florida).

**4. How much risk?**

There didn't seem to be a lot of risk given the worth of the property against the value of the tax lien. That is, if I ended up with the property for what I paid for the tax lien, then I would own a \$199k house for less than \$10k. Bargain!

Let's see how the investment played out.

Further notes (cont'd)

# Tax Lien Advice

**PropertyInvesting.com**  
Sharing Knowledge. Building Wealth

The image shows a check from the Lee County Tax Collector, dated 11/25/2009. The check is payable to Stephen George McKnight Just Deal Enterprises LLC. A table on the check provides details about the tax lien certificate. Two callouts highlight '18 DAYS' pointing to the 18-day period between the issue and redemption dates, and '5%' pointing to the interest earned on the certificate.

Certificate Number	Tax Year	Strip	Issue Date	Redeem Date	Interest Rate	Certificate Amount	Interest	Withhold	Total Due	Comment
08-049100	2009	15-45-23-C4-04004.0200	11/2/2009	11/20/2009	18.00 %	\$5,194.43	\$309.72	\$0.00	\$5,504.15	Redemption
Certificate Total						\$5,194.43	\$309.72	\$0.00	\$5,504.15	
Fees:						\$1,309.72	\$309.72	\$0.00	\$5,504.15	

Issue Date	Redeem Date	Interest Rate	Interest
11/2/2009	11/20/2009	18.00 %	\$309.72

A couple of weeks later, this letter and an accompanying check turned up in the mail from the Lee County tax collector. You will see that I only owned the tax lien for 18 days and earned interest of \$309.72, which equates to a 5% return. Why not 18%? Well, 18% is the per annum amount, and I only owned the tax lien for 18 days. Why not 0.049% (i.e.  $18\% \div 365 \text{ days}$ )? Because in Florida the minimum amount an investor can earn on a tax lien (unless they ask for 0%), is 5%.

Your notes

# 1432 SW 53rd Terr, Cape Coral

Interest	\$310
÷ Investment	\$6,195
<b>= ROI</b>	<b>5%</b>

Interest	\$310
Days	18
<b>Annualized ROI</b>	<b>101.47%</b>

TIMING: DVD ..... Approx. time .....

## Further notes

It's a little misleading, but a 5% return after 18 days is like getting a 101.47% return over 12 months. But the assumption behind these numbers is that you will reinvest your money in a similar deal every 18 days, and that is quite unrealistic given you don't know when the tax lien will be redeemed, if at all. It's also unknown whether similar tax liens will be available.

There are two important points to know here:

1. Tax liens are available on all kinds of property – from junkers to mansions and everything in between.
2. It's more normal for tax liens to be redeemed than it is for them to be foreclosed upon.

## Your notes

Explain what your minimum return in Florida will be if you bought a tax lien on a Friday afternoon, and the following Monday the property owner came in to the tax collector and repaid it.

# Tax Liens Can Be On

## Any Property!

- Land
- Homes
- Non-Profits
- Commercial Premises
- Car parks

TIMING: DVD ..... Approx. time .....

### Further notes

So long as the owner has to pay property taxes, if she/he/it fails to pay on time then the county can create a tax lien against the title and sell it off to a third party.

This means that there is a veritable smorgasbord of properties subject to tax liens if the property taxes are not paid in time, including various:

- Types of property (homes, land, commercial, etc.)
- Ages of property (new, old, etc.)
- Values of the property
- Locations of property
- Uses of property (home, investment, office, industrial, etc.).

### Your notes

# Possible Returns

- State by State mandated
- Lowest: 8% per annum
  - Oklahoma
- Highest: 25% every six months
  - Texas
- Some states have set minimum returns

TIMING: DVD ..... Approx. time .....

## Further notes

Not every U.S. state offers tax liens, and those that do have different rules about the interest charged, minimum returns, and the time allowed for the owner to redeem (i.e. repay) the tax lien before the property can be foreclosed upon.

The four broad categories are:

### 1. Lien states

States where tax liens are available for sale. If a lien has not been repaid by the end of the redemption period, then the property deed becomes transferrable.

### 2. Deed states

States where you purchase the deed to the property and the property becomes yours outright. In this case, the lien is held by the county, which then sells the deed in due course if the property owner has not repaid.

### 3. Lien and deed states

States where, in the first instance, the lien is sold at public auction. If the lien is not redeemed by the due date, then the deed is sold at public auction with the proceeds going to repay the lien holder. If the lien has been sold to an investor but the deed did not sell at auction, then the deed is transferrable to the investor.

## Further notes (cont'd)

### 4. Redeemable deed states

States where the deed to the property is sold, but the original property owner has a finite time to redeem their deed. After that date there is no further recourse available.

Note: A quick reference list of the rules for each state can be found in the appendix.

## Your notes



# No Tenant Hassles

- Buying the debt, not the property
- Not the owner ∴ No ownership costs
- No rent collection (interest return)
- No capital gain / loss

TIMING: DVD ..... Approx. time .....

## Further notes

Since tax lien holders are buying the debt (i.e. the unpaid property taxes), rather than the property, they are not subject to the usual dramas and risks associated with real estate investing.

For instance, they do not have to pay property taxes, rental management fees, insurance, or repairs and maintenance. There are no calls to unblock toilets, or frustrations with finding tenants or potential vacancies.

Neither do tax lien investors have to collect rent – the county calculates the interest and mails a check on redemption.

On the downside, though, there are no opportunities for capital gains, and once the tax lien is redeemed, the interest return ceases and the investor has to look to reinvest his or her money.

## Your notes

# Important Points

- You do not have direct contact with the property owner
- Everything is done via the Tax Collector

TIMING: DVD ..... Approx. time .....

## Further notes

Tax lien investing is extremely passive. You never need to have contact with the owner, as the county tax collector:

- Is the entity that sells the tax liens
- Is the entity the owner visits to pay off the lien
- Is the entity that calculates the interest
- Is the entity that mails you your check.

The hardest things tax lien investors need to do are:

- Keep a list of all the tax liens they own
- Keep track of their interest and expenses so they can complete their tax returns
- Start the foreclosure process if a lien is not redeemed in time.

## Your notes

# Relationship



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## Further notes

The tax collector becomes the agent (or perhaps a broker) for both the property owner and tax lien investor. There is no need for either the owner or the investor to have direct contact with each other.

## Your notes

In your own words, explain the relationships between:

1. The owner and the tax collector, and
2. The tax collector and the investor.

Who does the owner approach to pay off the tax lien? Who do you think calculates the amount of interest that is due?

# Interest

- Calculated by the County
- Simple interest on the face amount
- Pro rata monthly
- Some states have minimum amounts
- Fees etc. added to the debt

TIMING: DVD ..... Approx. time .....

## Further notes

Interest is the cash flow profit return generated by tax lien investments, and the actual amount earned will vary according to:

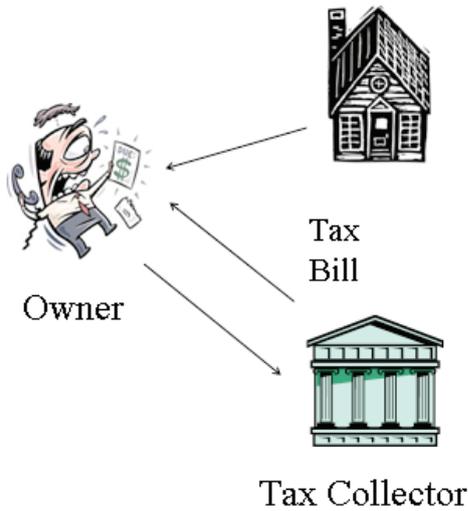
1. The state where the lien is held, because different states have different government-mandated interest rates.
2. The length of time the lien is outstanding, because the interest return is pro rata, with many states having minimums that lock in a worthwhile return for investors (e.g. Florida has a 5% minimum).

For example, Florida has a maximum interest rate of 18%, which equates to 1.5% per annum (i.e.  $1.5\% \times 12 = 18\%$ ). However, in Florida, it doesn't matter if the lien is redeemed in Month 1 ( $1.5\% \times 1$  month interest = 1.5%), Month 2 ( $1.5\% \times 2$  month interest = 3.0%) or Month 3 ( $1.5\% \times 3$  month interest = 4.5%), the investor will still get 5%. Thereafter, though, the interest rate increases up to a maximum of 18% at the end of the year.

3. Any county-levied fees and charges the investor has to pay are also usually added to the amount outstanding. For example, the investor will need to pay a fee to the county to begin the foreclosure process (in states where the county does this). This fee is then added to the amount outstanding and upon which interest is levied.

The interest does not compound.

# Tax Lien Process



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## Further notes

Let's take a closer look at the three steps in the tax lien process.

### Step 1: Unpaid property taxes

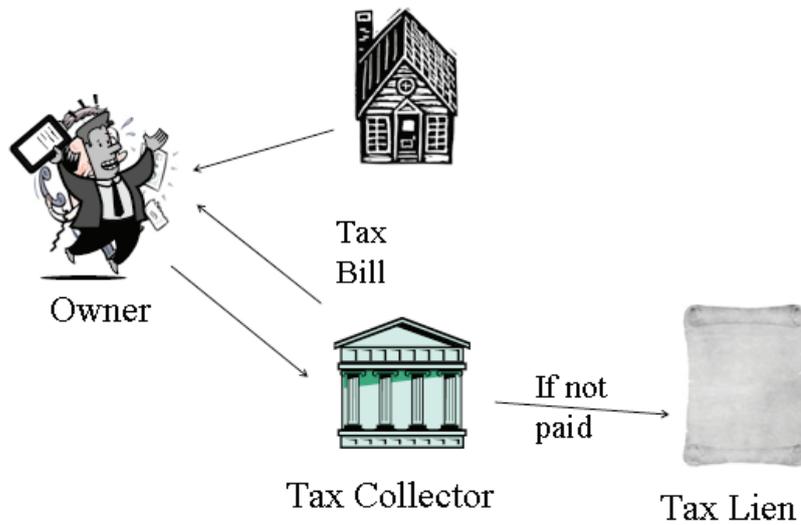
In Step 1, the property owner receives his/her/its annual property tax bill, which is issued by the county tax collector.

This document normally outlines how the property has been valued, and will include a break-up of the individual components of the total bill. The property owner will have the opportunity to dispute the amount if they do not agree with the valuation or the components of the property taxes.

The owner will normally also have the opportunity to pay the amount off in instalments, or alternatively pay early and receive a discount.

## Your notes

# Tax Lien Process



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## Further notes

### Step 2: Tax lien issued

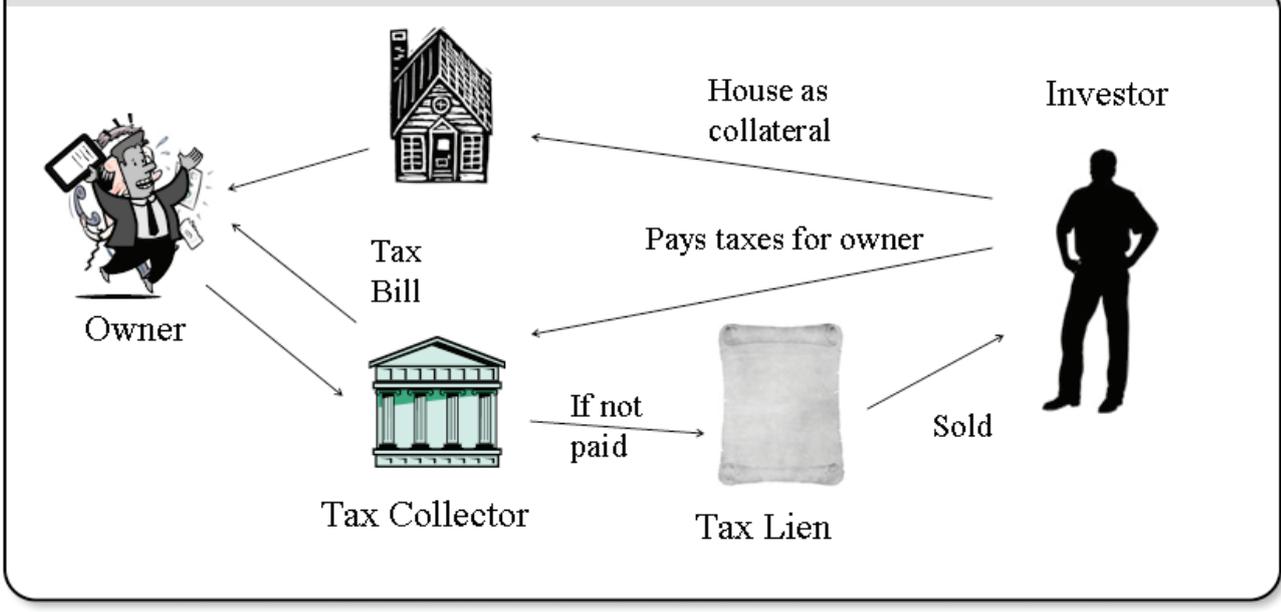
Having received their property tax bill, the owner becomes alarmed because she/he/it is unable to pay the bill.

Remember that at this point the owner can negotiate with the county, or even sell the property. However, the second option is increasingly unlikely because, after the global financial crisis decimated property values, there many properties with mortgages in excess of their value.

With the property taxes unpaid, the county issues a lien against the property's title as security for the amount owed and begins to charge penalty interest.

## Your notes

# Tax Lien Process



TIMING: DVD ..... Approx. time .....

## Further notes

### Step 3: Tax lien sold to an investor

Finally, the county-issued tax lien is sold to an investor for the amount of back taxes and accrued interest (if any) owing, thereby providing the county with the funds it needs to run its services.

Depending on the state, investors may then be able to buy the tax lien – either at a once-a-year auction, or afterwards at the tax collector’s office if they have not been sold at auction.

The investor’s investment is protected by security: the property on which the outstanding property taxes have been charged.

## Your notes

# Security

## A government mandated *lien*

"a lien is a **legal instrument** giving a person, business, etc. the **legal right** to take, hold or sell another person's property for debt or restitution of some sort."

- WikiAnswers.com

TIMING: DVD ..... Approx. time .....

### Further notes

The security that underpins this type of investment is a government-mandated *lien*.

This is the highest form of lien that exists, and as such, it outranks all other liens, mortgages and claims against title in preference and seniority – regardless of age and amount.

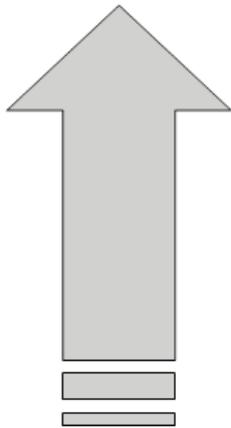
In other words, the security that backs a tax lien is superior to any mortgage, even an IRS lien for unpaid federal income taxes.

An important point of difference, though, is that a tax lien is *not* government-guaranteed, meaning that if the owner fails to pay then you must seek repayment by foreclosing on the property. That's not an issue so long as the property is worth more than the outstanding property tax lien(s).

If the amount of outstanding property taxes is greater than the value of the property, then it's unlikely the tax lien will be redeemed. In this case, the investor may make a loss, because even though they may be given title, the property will not be worth what they are owed in outstanding tax liens.

### Your notes

# Order Of Priority



- Government Liens
- Mortgages
- Judgments
- Other Liens (non property taxes)
- Owner

TIMING: DVD ..... Approx. time .....

## Further notes

The Australian equivalent of a tax lien would be a cross between a caveat and a mortgage. A caveat is essentially a warning on title, whereas a mortgage is a claim against title.

In any event, in the U.S. any number of parties can ask for a lien against the property, including:

- Government liens, such as unpaid income taxes
- Mortgages to lenders
- Judgements issued by courts
- Mechanics liens, which are claims against the property for unpaid work done by tradespeople.

Something that you may not know is that one of the consequences of the global financial crisis is that many property owners are now in a position where they owe more on their mortgage than what their property is worth.

Because of the sheer number of foreclosures, lenders are allowing people to continue to live in their home, because they know an occupied house is better than a vacant house. However, the homeowner is no longer making mortgage repayments, nor are they paying property taxes. Accordingly, the number of tax liens being issued has dramatically increased.

# Example

House Value	\$100,000
Property Taxes	\$2,000
<del>Mortgage</del>	<del>\$75,000</del>
<del>Tradesman Lien</del>	<del>\$2,500</del>

TIMING: DVD ..... Approx. time .....

## Further notes

Here's an example to help illustrate the situations where there are different liens against a property.

In this example the property is worth \$100,000. Three parties have registered a claim against the title: the county for unpaid property taxes of \$2,000, the bank with a mortgage of \$75,000, and a tradesman for \$2,500 of unpaid work when he came to fix a leaking roof.

The order of priority for repayment would be:

1. Property taxes
2. Mortgage
3. Tradesman's lien.

Furthermore, if the tax lien was not repaid in time and the investor foreclosed, the claims on the property by the mortgage holder and tradesman would be removed from the property's title. That is, the debt against the individual would remain, but the claim against the security would be removed.

# The Property...

## Depending on the State

- Either becomes your property
- Sold at public auction
  - Opening bid what you are owed (incl interest)
  - No bidders then it becomes yours

TIMING: DVD ..... Approx. time .....

### Further notes

As mentioned, as hard as this is to believe, depending on the state where the tax lien was issued, if the tax lien is not repaid in time and becomes foreclosed upon:

- The mortgage and other liens become 'unhitched', and the property title becomes 'free and clear', and
- Depending on the state, the property:
  - o Is sold at public auction with the opening bid being the amount owing in back taxes and interest. **If there are no bidders, then the property's title is passed over to the tax lien holder, or**
  - o Title is transferred to the investor, but first a legal order for this to happen must be sought and granted.

If it seems unfair that a mortgage holder might lose their security in the event that the owner does not pay his or her property taxes, be advised that the mortgage holder will be notified by the county of the impending foreclosure and may pay off the tax lien to protect their interest against the security. For example, it's not uncommon for a lender to pay off a tax lien holder to ensure their mortgage is protected. This is another example of how, done correctly, tax lien investing is comparatively less risky than other investment strategies.

# Redemption Rules

- Owner has ample time to redeem
- Repay taxes AND penalties
- Part payments not allowed
- Return pro rata but minimum (Check State)
- If not repaid, investor starts foreclosure and the owner could lose their property

TIMING: DVD ..... Approx. time .....

## Further notes

When a property owner pays his/her/its outstanding property taxes to the county tax collector, the tax lien is said to have been redeemed.

Depending on the state (see the appendix for specifics), property owners usually have between 18 and 36 months to repay their outstanding property taxes before the investor can seek to foreclose on the tax lien.

Once a tax lien has been issued, the entire amount (principal and interest) must be paid off in one lump sum. That is, instalment repayments are not allowed.

## Your notes

# Ethical Considerations

- Government mandated rate
- Legal protection for owner against abuse
- Ample time to come to an arrangement
- Often abandoned / investor properties
- Owner can always lease / resell

TIMING: DVD ..... Approx. time .....

## Further notes

Before investing, it's always prudent to weigh up the ethical considerations of the strategy being considered. When it comes to tax liens, the key consideration is whether or not you are charging usury interest, and whether or not you are unfairly evicting people from their homes. Each person must make up his or her own mind, but factors that may influence your thinking include:

- The interest rate charged is mandated by the government. Regardless of whether or not you buy the tax lien, this is the interest rate that the property owner will be charged (and the county will receive the interest).
- There are rules and laws that protect the property owner from being abused by unscrupulous investors.
- Property owners are allowed ample time to pay the property taxes in the first instance, and then pay the outstanding property taxes before foreclosure.
- Owners can always lease or sell their properties rather than have them taken away through tax lien foreclosure.

Your notes

# How Proven Is It?

- First Tax Lien
  - Brooklyn, NY in 1698
- Over 300 years of legal precedent
- Oldest investing strategy in the US
- Proven and government mandated

TIMING: DVD ..... Approx. time .....

## Further notes

Tax liens are not a new concept. They, and the laws and court cases that uphold them, have been evolving and tested over hundreds of years. This is, in fact, one of the oldest investing strategies in the U.S.

If you're wondering why tax liens aren't better known among investors, the answer is: they are, but mainly among the larger institutions rather than mum and dad investors.

The secret is getting out, though, and as the tax lien auctions go online, more and more 'average' people are participating, as are international investors.

## Your notes

# Suitable For

- ✓ Lower risk investors
- ✓ Time poor investors
- ✓ Equity rich investors
- ✓ Do it in your own name
- ✓ Good first step



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## Further notes

While tax lien investing is not for everyone, it is a viable and attractive strategy for:

- **Lower risk investors**  
Having the property as security makes it an extremely low-risk strategy.
- **Time-poor investors**  
Buying tax liens is not rocket science, and is perfect for investors who don't have the hours needed to research and buy direct property.
- **Equity-rich investors**  
Tax liens are an easy way of getting a good return on equity that would otherwise sit around earning low, or no, returns.
- **No structure needed**  
As you are not the property owner, you can buy tax liens in your own name without fear of being sued by tenants or others.
- **Good first step**  
Buying tax liens is an excellent first step in the U.S. property market, as you will become familiar with the basics of U.S. property without actually having to own any real estate.

# Simple Equity Example

Australian Property		US Tax Liens	
Equity	\$250,000	Portfolio	\$250,000
Interest	× 7%	Avg Interest	× 15%
Interest	<b>\$17,500</b>	Interest	<b>\$37,500</b>

TIMING: DVD ..... Approx. time .....

## Further notes

Here's an example of how an equity-rich investor can access additional cash flow by using tax liens.

Assume:

1. You had \$250k equity that you could refinance in Australia at 7% interest.
2. The USD to AUD exchange rate was 1:1.
3. You could buy tax liens with an average 15% interest return.

You would make \$37,500 in interest on your tax liens and pay \$17,500 interest on your Australian borrowings. In this situation, you would be \$20,000 per annum better off.

## Your notes

How much equity do you have available? Using the same assumptions as above, what additional annual revenue could you access by investing your untapped equity in tax liens?

# Risks

- x Currency risks
- x Quick pay out
- x End up with the property
- x Competitive
- x Loss from dud deal



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## Further notes

Although tax lien investing is *'low risk'*, it's not *'no risk'*. You can still lose money:

- **Exchange rate movements**  
If the exchange rate deteriorates between the time you send money overseas and the time the tax lien redeems, and you bring the funds back, then you may suffer a loss on the exchange rate that is higher than the interest you made on the tax lien.
- **Quick payout**  
It's a catch-22: you want to earn interest, but you also want your money back – and if you get repaid you don't receive any more interest. If you are redeemed and you want to reinvest in other tax liens, you are making an assumption that there will be good-quality tax liens available.
- **End up with the property**  
If you aren't redeemed you may end up being the property owner, and if you don't want to claim the property, then you will have lost the value of your tax lien investment.

### Further notes (cont'd)

- **Competitive**

As more move online, tax lien auctions are becoming increasingly competitive. This could be a new trend, or it could just be because there are relatively few counties that hold their annual auctions online at the moment (but more are doing so each year).

- **Dud deal**

For reasons explained soon, it is possible to buy a dud tax lien where the value of the property falls to below the value of the tax lien.

### Your notes



# Where To Buy Liens

- **Annual Auction**
  - Online or Live
- **Over The Counter Purchases**
  - Online or Live

TIMING: DVD ..... Approx. time .....

## Further notes

Assuming you are interested in investing in tax liens, you are now probably wondering, 'Where do you buy them?'

Although there is an emerging 'second-hand' market in which investors buy unredeemed tax liens, the primary place to acquire tax liens remains the county tax collector.

Each county that sells tax liens to investors holds at least one public tax lien auction every year. The traditional situation is that the auction is held live, and to buy either you or your proxy must attend in person.

A change that is occurring, and building more momentum as it does, is for the auctions to occur online rather than 'in person'. These online auctions overcome the problem of physical attendance and therefore allow anyone, anywhere in the world, to participate (provided they successfully register and leave a deposit).

Tax liens that are not sold at the annual auction are passed back to the county and are then available 'over the counter'. This is literally as the name suggests – you go to a counter at the county tax collector and buy the tax lien you want. Some counties also allow you to buy over-the-counter tax liens online.

# Annual Online Auction

- Research if available in ‘your county’
- Florida done by:
  - [www.realauction.com](http://www.realauction.com)
  - [www.grantstreet.com](http://www.grantstreet.com)
  - Internal County Websites

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## Further notes

Although tax lien certificates are managed at a county level, each state usually runs their annual auctions in the same month as they did in the year before. For example, Florida holds their tax lien auctions in May; Arizona’s are in February.

Several companies have emerged as the leaders in offering online auction technology to the counties: Real Auction and Grant Street are two examples. These online systems are quite robust and have advanced search criteria. Alternatively, some counties prefer to go it alone and have their own online systems.

## Your notes

Take a few moments and take a look at the Real Auction website ([www.realauction.com](http://www.realauction.com)).

Locate the link that says ‘County Tax Certificate Auctions’ (it is in the left-hand menu at the time of writing). This will bring up a page that shows all the counties that use Real Auction software and a link to their tax lien auction web pages.

# Example: Lee County

- Held in May
- 2009 Year
  - 51,134 certificates available
  - \$86,503,833 in liens available
  - 180 investors participated

TIMING: DVD ..... Approx. time .....

## Further notes

To highlight the sheer quantity of tax liens that are available for sale, in Lee County there are approximately 625,000 property parcels, of which 51,134 had tax lien certificates auctioned on them at the May 2010 auction (for the 2009 property tax year).

In other words, around 1 in 12 Lee County properties had a tax lien issued against it.

Furthermore, I'm told that there were only 190 'investors' who participated in that auction. But don't be fooled into a false sense of opportunity... some of those investors are large institutions (like major Superannuation Funds) with many millions to invest.

Lee County is one of 67 Florida counties, and one of 3,141 counties in the U.S.A. Sure, not all of them are going to offer tax liens for purchase online, but you can see that there is no shortage of opportunity.

## Your notes

# Online Bidding Process

1. Register to get Bidder ID
2. Place your bids \*
3. Submit a deposit to determine bid limit \*
4. Auction is held
5. Provide payment by due date

TIMING: DVD ..... Approx. time .....

## Further notes

You will need to register online in order to participate in the online tax lien auctions. Each county may require slightly different information, but all will want to know your:

- Tax ID number
- Name
- Phone number
- Mailing address.

Provided you have all the required information, the registration process is quite easy and, once completed, will result in you being issued with a bidder number. You will then be able to log in to the auction website and perform searches, make bids, etc.

Different counties have different rules, but as a guide, the deposit you leave in your account will determine your maximum 'budget' for how much you want to invest at the auction. For example, if the county had a rule that you had to have a 10% deposit in your account, depositing \$10,000 would cap your tax lien investment to \$100,000.

The online auction usually takes place in batches (with an hour in between each batch). The results are calculated and reported within seconds after each batch closes.

You will need to pay for your winnings by the due date or risk being banned from future auctions.

Further notes (cont'd)

<b>My Bidding [?]</b>	<b>\$943,275.75</b>
My Bids	530
Average Interest Rate	17.996%
Face Value	\$943,275.75
<b>Total Investment</b>	<b>\$943,275.75</b>

<b>My Deposit/Payments [?]</b>	<b>\$32,855.93</b>
May 26, 2010 08:42:45 PM ET	Wire Transfer \$17,855.93
May 17, 2010 06:40:17 PM ET	Wire Transfer \$15,000.00
<b>Total Deposits/Payments</b>	<b>\$32,855.93</b>

<b>I can still win [?]</b>	<b>\$267,144.07</b>
Total Deposits	\$32,855.93
Minus Deposits Used	\$1,642.80
Balance	\$13,357.20
<b>I can still win (20 times balance)</b>	<b>\$267,144.07</b>

<b>My Winnings [?]</b>	<b>\$32,855.93</b>
Certificates Won	51
Face Value	\$32,855.93
<b>Total Winnings</b>	<b>\$32,855.93</b>

<b>My Balance [?]</b>	<b>(Refund) \$0.00</b>
My Winnings	\$32,855.93
Deposits and Payments	\$32,855.93
<b>Balance Due</b>	<b>\$0.00</b>

The tables above reveal the results of my bidding at the 2010 Lee County online tax lien auction.

You will see I made 530 bids that totalled \$943,275.75. This does not mean I wanted to buy \$943k worth of tax liens.

In Lee County, my 'maximum' investment was predetermined as 20 times my deposit. At the time of the auction, my deposit was \$15,000, meaning that the maximum amount of tax liens I could buy was \$300,000. The figures above reveal a deposit of \$32,855.93, but this was after I paid in extra funds (\$17,855.93) to pay off my winnings. Do you see how the Total Deposits equals Total Winnings?

My results were that I won 51 certificates worth \$32,855.93 at an average interest rate return of 17.996%.

## Further notes (cont'd)

In order to track the whole process through, let's look at 'the story' of one of the tax lien certificates I purchased at the 2010 Lee County online auction. At random, I selected certificate number 10-018735, which cost \$1,078.69 and returned the maximum 18% interest.

Bidder Results Summary								
Total Parcels Won: 51					Total Deposits/Payments: \$32,855.93			
Total Cert Face Value: \$32,855.93					Refund/ Balance Due: \$0.00			
Winning Acct	ADV Num	Parcel ID	Certificate Number	Deposit/Payment Date	Deposit/Payments	Cert Face Value	Winning Bid Percent	Deposit Remaining
Pri (13283)	001350	43243401000410120	10001350	05/26/2010	\$17,855.93 [S]	\$470.59	18.00%	\$14,976.47
Pri (13283)	002865	43272501000080020	10002865	05/17/2010	\$15,000.00 [S]	\$471.23	18.00%	\$14,952.91
Pri (13283)	002874	4327250100009007B	10002874			\$392.76	18.00%	\$14,933.27
Pri (13283)	003999	44241101000M00010	10003999			\$305.71	18.00%	\$14,917.99
Pri (13283)	004000	44241101000M00670	10004000			\$476.98	18.00%	\$14,894.14
Pri (13283)	004258	442503030000D0020	10004258			\$495.51	18.00%	\$14,869.36
Pri (13283)	004394	44250404000278740	10004394			\$501.86	18.00%	\$14,844.27
Pri (13283)	004401	44250404000299160	10004401			\$460.89	18.00%	\$14,821.22
Pri (13283)	004425	44250405000140140	10004425			\$576.33	18.00%	\$14,792.41
Pri (13283)	004503	44250422000000300	10004503			\$660.88	18.00%	\$14,759.36
Pri (13283)	004555	442509060000C0060	10004555			\$599.01	18.00%	\$14,729.41
Pri (13283)	006531	44261403000290010	10006531			\$109.60	18.00%	\$14,723.93
Pri (13283)	008756	44263102000220030	10008756			\$1,126.13	18.00%	\$14,667.63
Pri (13283)	009175	44263308000060300	10009175			\$1,767.72	18.00%	\$14,579.24
Pri (13283)	015622	44273310000520060	10015622			\$358.85	18.00%	\$14,561.30
Pri (13283)	018735	45260112001260070	10018735			\$1,078.69	18.00%	\$14,507.36
Pri (13283)	021387	45270409000010120	10021387			\$380.02	18.00%	\$14,489.38
Pri (13283)	021507	45270602000030040	10021507			\$347.03	18.00%	\$14,472.01
Pri (13283)	035941	432335C4027030260	10035941			\$477.06	18.00%	\$14,448.16
Pri (13283)	044066	442417C1013450380	10044066			\$680.33	18.00%	\$14,414.14
Pri (13283)	047549	442424P1011120110	10047549			\$808.81	18.00%	\$14,373.70
Pri (13283)	047679	442424P40130H0090	10047679			\$694.30	18.00%	\$14,338.99
Pri (13283)	048212	442505P30100A0100	10048212			\$786.04	18.00%	\$14,299.68
Pri (13283)	048229	442507P3001050060	10048229			\$1,007.21	18.00%	\$14,249.32
Pri (13283)	048260	442507P4001070340	10048260			\$762.85	18.00%	\$14,211.18

Doing a certificate search at the Lee County tax collector website, my purchase was confirmed – you can see my name below as the certificate holder, that I paid \$1,078.69, and that I am eligible to get 18% interest. You will also see the status is 'REDEEM', and this means the property owner has since repaid the amount owing.



Cathy Curtis, Tax Collector

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GO

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Property Taxes
Vehicles / Vessels
Driver License
Hunting & Fishing
Local Business Taxes
Pay Online

View Cart

Checkout

? Help

Certificate Information

New Search

Certificate	Account	
10-018735	01-45-26-12-00126.0070	
Status	Tax Year	
REDEEM	2009	
Certificate Holder		
Stephen G McKnight 1202 SE 8th Pl Ste B Cape Coral, FL 33990 US		
Sale Date	Interest	Face Value
5/25/2010	18.00%	\$1,078.69

Further notes (cont'd)



LEE COUNTY TAX COLLECTOR

Check Write Date: 9/2/2010

September 2, 2010

Vendor: C0005103 XXXXX4885 Stephen G McKnight Just Jesi Enterprises LLC

Certificate Number	Tax Year	Strap	Issue Date	Redeem Date	Interest Rate	Certificate Amount	Interest	Withheld	Total Due	Comment
10-018735	2009	01-45-26-12-00126.0070	5/25/2010	8/24/2010	18.00 %	\$1,078.69	\$53.93	\$0.00	\$1,132.62	Redemption
10-051180	2009	24-44-24-P4-0130H.0090	5/25/2010	7/1/2010	8.00 %	\$537.70	\$7.17	\$0.00	\$544.87	Cancellation
<b>Certificate Total:</b>						\$1,616.39	\$61.10	\$0.00	\$1,677.49	
<b>Vendor Total:</b>						\$1,616.39	\$61.10	\$0.00	\$1,677.49	

2480 THOMPSON STREET \* PO BOX 630 \* FORT MYERS, FLORIDA 33902 \* (239) 533-6000 \* www.leetc.com

/Cashier/Vendor Check Item

This is the remittance advice that came soon after the owner paid off his/her property taxes and hence redeemed the tax lien. Given I owned the tax lien for a total of 91 days, from 25th May until 24th August, what percentage interest should I have expected to receive?

Although I was eligible to receive 18%, this is per annum. In this case the tax lien only lasted 91 days. You could say I was eligible for 91 days interest, pro rata at 18% (i.e.  $91 \div 365 \times 18\%$ ). This gives an effective return of 4.49%. However, in Florida, unless you bid 0%, your minimum return is 5%. Therefore,  $\$1,078.69 \times 5\% = \$53.93$ . The county does not charge an administration fee to process the payment and send out the check (at least, not yet!).

Your notes

# Proxy Bids

ORANGE COUNTY  
OFFICIAL TAX CERTIFICATE AUCTION SITE  
HONORABLE EARL K. WOOD, TAX COLLECTOR

home • about us • FAQ • contact us • site map • logout

Display Results: My Winning Bids Batch: 6 Go Bidder Number: 9327

Showing results 1 - 1 of 1

ADV Num	Cert #	Parcel ID	Face Value	My Bid	Winning Bid	Winning Bidder Num	Distribution
021115	0021115	26-23-29-8070-10030	\$204.27	15.00%	16.25%	9327	<a href="#">View</a>

My Bid	Winning Bid
15.00%	16.25%

TIMING: DVD ..... Approx. time .....

## Further notes

Here is another example of one of my winning bids from the 2010 online tax lien auction, but this time it is from Orange County. It is worthy of comment because it demonstrates an important principle called 'proxy bidding'.

The outcome of the online auctions is determined by a computer that has been programmed according to the parameters of the auction. With that in mind, in this example I bid 15% as my 'maximum interest'.

In Orange County, the winner of the bid is determined by the lowest interest rate they bid as what they would charge the property owner – from a maximum of 18% to a minimum of 0%, and decreasing in 25 basis point intervals.

For example, let's say there were four investors who each wanted a particular tax certificate. One bids the maximum 18.00%, another bids 17.75%, a third bids 17.50%, and a fourth bids 15.00%. Would you expect the 15.00% bid to win?

You'd be right. because it is the lowest bid. However, to ensure that the investor is not short-changed, the computer will automatically place a proxy bid for the lowest-bidding investor at 25 basis points below the next previous highest bid. That is, even though the investor bid 15.00%, he/she will be awarded the certificate at 17.25% (i.e. 25 basis points below the next highest investor's bid of 17.50%).

# Proxy Bids

## Bid Distribution Detail

Advertising Number	021115
Certificate Face Value	\$204.27
Winning Bid (By Proxy)	16.25%
Winning Bidder #	9327

Interest Rate	# of Bids
18.00%	1
17.75%	1
16.50%	1
15.00% (16.25% by Proxy)	1
12.00%	1*
<b>Total Bids:</b>	<b>5</b>

\*One or more of the bid(s) did not win due to insufficient funds.

TIMING: DVD ..... Approx. time .....

## Further notes

Back to my example from the 2010 Orange County tax lien auction. The tables above reveal that although I bid 15.00%, I was the eventual winner and awarded interest at 16.25% because the next highest legitimate bid was 16.50%. In other words, the computer made a proxy bid for me at 16.25%.

But hang on a minute, didn't someone bid lower than me at 12.00%? Ah, yes they did, but they had 'insufficient funds' to win and so their bid was cancelled. What's most likely to have happened here is that that bidder exceeded their maximum budget (as determined by their deposit) and hence all their open bids after their maximum was achieved were cancelled.

The existence of proxy bids adds to the excitement, and shenanigans, associated with the 'game' of online tax lien auctions. For example, you might want to 'knock out' other bidders by coming in at a lower percentage, in the hope that a proxy bid will increase your return. That said, you might end up with the lien at the lower rate and clip your profits.

## Your notes

In your own words, explain what a proxy bid is and how it works.

# Annual Live Auction

- Must register beforehand
- Must leave a deposit
- Held in a closed room
- You or your proxy must attend
- Payment from immediate to 48 hours

TIMING: DVD ..... Approx. time .....

## Further notes

Not all counties have embraced the advances that online auctions promise, and instead prefer to do it the old way, which is have a live auction on the courtroom steps or else in a room where bidders have to be present (i.e. a closed room).

This may be a little less efficient, but that in itself provides an opportunity for those who want to attend in person, as there is probably going to be less competition than the online auctions (given the hassle of having to be there).

The registration process is similar to the online auction, and depending on the rules, payment at live auctions is due either immediately or up to 48 hours later.

## Your notes

# Over The Counter

- In General
  - Registered with the County
  - Have funds ready
    - ACH, Wire, Cash, Certified Check
    - Credit Card (fees apply)

TIMING: DVD ..... Approx. time .....

## Further notes

Tax liens that are not sold at auction are passed back to the county at the maximum interest rate (as determined by state law).

Investors are then able to buy those tax liens, at the maximum interest rate, direct 'over the counter' from the county tax collector (literally – at a counter at the tax collector's office). To purchase you will need to be registered, and have your clear funds ready as payment (cash, credit card, certified check).

## Your notes

# Over The Counter

- In Person
  - Mention the tax certificate number
  - Arrange payment details
  - Your or your proxy must attend the Tax Collector's office

TIMING: DVD ..... Approx. time .....

## Further notes

You can buy over-the-counter tax liens in person, which means driving to the tax collector's office, registering (if you have not already done so), identifying the tax lien (or liens) you want to buy, paying for it/them, and then walk away with the paperwork that indicates you are the new owner.

## Over The Counter

- Via Phone
  - Tax certificate number
  - Payment details
    - Credit card may be best
  - Remember the time differences!

If you are already registered, you can also buy over-the-counter tax liens via telephone. You will need to let the county know your bidder ID number, the number(s) of the tax certificate(s) you want to buy, and how you want to pay for it (credit card, wire transfer, etc.)

# Where To Go

- **Offline States**
  - Contact via phone or email
- **Online States**
  - Direct from the Tax Collector
  - Proxy list distributors

TIMING: DVD ..... Approx. time .....

## Further notes

With so many options, you may be wondering what to do. In the first instance, I suggest you register and participate in the online auctions. As you build your confidence, start small and then work your way up.

Alternatively, if there isn't an online auction occurring soon, you may like to do what I did. I launched straight in and purchased about \$10,000 worth of over-the-counter liens on my first trip to Florida. Doing this helped me to become familiar with the due diligence processes outlined in this product.

You can get lists of tax lien auctions and over-the-counter liens from the offices of the tax collector in your chosen counties, or else from their agents if they have delegated it to other parties. Tommy Senatore's office has lists available of upcoming tax lien and tax deed sales.

## Your notes

# Buying From Oz

## Assuming you're registered:

- Annual Online Auction
- Over The Counter
  - Online
  - Over the phone
  - Via proxy

TIMING: DVD ..... Approx. time .....

### Further notes

If you don't want to make a trip over beforehand, you can buy tax liens either:

**1. Online at the annual auction**

Remember that you will need to be registered, and getting an ITIN can take up to 12 weeks (less if you use Tommy's services). You will also need to wire money over to the tax collector's bank account, and you can only do this once you have your bidder ID.

**2. Over the counter**

If you don't want to wait for the auction, you can jump in sooner by purchasing over-the-counter liens. These may require a little more due diligence, given they are still available, but just because they haven't sold earlier at the online/live auction does not mean they are duds. Again, you will need to be registered with the county, and this requires a tax ID.

### Your notes

# How Can You Pay

- Credit card (fee applies)
- Wire transfer (delays likely)
- Pay from your US bank account
  - ACH, certified check, wire transfer

TIMING: DVD ..... Approx. time .....

## Further notes

You can pay for your tax lien purchases from Australia by:

- **Credit card**

You can pay on the spot using your Australian credit card. Be aware that you will probably be charged a fee by the tax collector to cover their merchant fee, plus you will be stung with a less competitive exchange rate by your credit card provider (for the AUD to USD conversion), and possibly an overseas transaction fee too.

- **Wire transfer**

You can do an international money transfer from your Australian account (using your bank or OzForex). You will need to get the bank account details for the tax collector, and your purchase will not be confirmed until the money has cleared. Furthermore, if someone else comes in to buy the tax lien before your money clears, you will miss out. So, it's possible, but it is a trickier logistical exercise.

- **U.S. payment**

Finally, if you have a U.S. bank account, you can pay for your tax liens by certified check (like a bank check) or by automated clearing house (ACH), which is a basic version of our direct debit system. If you're not in the U.S., this is a little harder to organise, but it will be quicker than a wire transfer from Australia.

# Location

## • How Important Is Location?

- Not critical
- Let your numbers give you comfort
- Every property sells... for a price

TIMING: DVD ..... Approx. time .....

### Further notes

An important point to always have in the back of your mind is that competition for the 'really good' tax liens is likely to be strong, and hence the interest rates that are bid very low. On that point, if you bid 0% interest, then that's what you will get. However, if you bid 0.25%, then, in Florida at least, the minimum will be 5%. That's why you will see institutions bidding 0.25% interest.

It's time to turn our attention to examining the due diligence around sorting the 'good' tax liens from the 'bad', and the first issue to consider is 'How relevant is location?' As you might expect, the better the location, the more valuable the underlying property will be, and accordingly, the amount of associated property taxes will be higher too. However, competition will also be higher, and thus the winning interest rate bid is likely to be lower.

Since you are not the owner, rather than viewing a tax lien as you would a property it's better to approach due diligence as a numbers game, and by answering three questions:

1. How likely am I to be redeemed?
2. How soon?
3. If I end up with the property, what is the margin between the tax lien's value and:
  - a. The appraised value of the land, and
  - b. The appraised value of the land and property?

# Redemption Rate

96%+

**IF.....**

**The property's value  
or associated mortgage is  
greater than the total value  
of all outstanding tax liens**

TIMING: DVD ..... Approx. time .....

## Further notes

Provided the appraised value of the property is greater than the value of all outstanding tax liens, in my opinion you have a 96%+ chance of being redeemed.

That said, you still might have to start the foreclosure process to be redeemed, but if the value of the outstanding lien(s) is less than the appraised value of the property, there is a low probability that you will become the eventual owner.

When I buy tax liens, I do so with the aim of being redeemed, and so I search for liens with this bias. Another strategy is to buy with the view of becoming the eventual owner.

## Your notes

# Some Basic Rules

- **Current year**
  - Max 5% of appraised value
- **Total all outstanding tax liens**
  - Max 40% appraised value

TIMING: DVD ..... Approx. time .....

## Further notes

Given that I want to be redeemed, my chief concern when doing my due diligence is to determine how much margin there is between the value of the property and the total amount of the tax liens outstanding. I do this via two simple rules:

### 1. 5% rule

The current year's outstanding property taxes cannot be more than 5% of the property's current appraised value. Given that most property taxes are between 1% and 3% of the value, this isn't usually a problem.

The reason for this rule is that it allows a buffer zone (I call it 'fat') for continued decreases in value, so that if I need to foreclose in two years' time (the minimum time in Florida for the owner to repay the outstanding property taxes), the combined value of the outstanding property taxes should still be less than the property's (reduced) appraised value.

### 2. 40% rule

The second rule is that the total of all outstanding tax liens must be less than 40%.

We haven't talked about the concept of multiple outstanding tax liens until now, but in reality, if a property owner doesn't pay their taxes in the current year, they may not have in previous years, and they may not in years to come.

### Further notes (cont'd)

Again, keeping the 40% rule ensures that, should the property need to be foreclosed upon, and should I become the eventual owner, there should be enough equity left in the transaction that can be realised upon sale to ensure I'm repaid what I'm owed (and hopefully extra too).

### Your notes

## Multiple Years?

- Remember... up to 3 years to repay
- May have multiple tax liens outstanding
- Oldest liens rank first
- To foreclose, must pay out later liens
- Beware: time limit or liens are wiped

TIMING: DVD ..... Approx. time .....

### Further notes

Depending on the state, to ensure the property owner has sufficient time to pay off the debt, you may have to wait three or more years before you can start the foreclosure process to force the owner to either repay the property taxes or else lose their property (see the appendix for more information about the time periods allowed in each state).

Therefore, the following are possible when buying tax liens:

1. No previous tax liens have been issued (or are outstanding) at the time you buy
2. When you purchase, there are previous tax liens issued against the property
3. Either (1) or (2), and no further tax liens are issued in the period you own the lien
4. Either (1) or (2), and further tax liens are issued in the period you own the tax lien.

It's prudent to plan for the worst-case scenario: option 4. If there are other tax liens outstanding, then the foreclosing investor has to pay out all the other tax lien holders *above* them, and in some states, also has to pay out the tax lien holders *below* them.

For example, let's assume that you bought a Florida tax lien at this year's auction. We'll call this year 'Year 0'. In your due diligence you have discovered that there is also a tax lien certificate outstanding for the previous year's unpaid property taxes. Now fast forward two years to the point where you are able to foreclose. In those two years, two further tax lien certificates have been issued for two more years of unpaid property taxes.

## Further notes (cont'd)

Here's a summary of how it looks:

Year	Status	Face Amount	Interest Owning*
Year +2	Tax Lien Issued – Bill	\$2,200	\$110
Year +1	Tax Lien Issued – Betty	\$2,100	\$378
<b>Year 0</b>	<b>Tax Lien Issued – You</b>	<b>\$2,000</b>	<b>\$720</b>
Year -1	Tax Lien Issued – Bob	\$1,900	\$1,026
	<b>Total</b>	<b>\$8,200</b>	<b>\$2,234</b>

\*Assuming 18% interest, and that Bill would only get 5% as he was paid out soon after buying.

In this case, even though Bob could have started foreclosure last year, let's assume he was lazy and didn't. You're not so passive, though, and you decide to take action and force the owner to either pay you back or lose the property.

Before you can start foreclosing, you must pay out the outstanding debts (face amount and interest) of all those above you (Bill and Betty), and, in Florida at least, you would also have to pay out Bob, who is below you. In this case, your total investment would be \$10,434 (\$8,200 + \$2,234).

Hopefully this example illustrates how, at first glance, you think you are only investing \$2,000, but, in a worst-case scenario, how you might need to pay out thousands more. Furthermore, it also demonstrates that you need to allow 'fat' between the value of the home and the value of your tax lien to allow for:

1. Possible future tax liens, and
2. Potential falls in the value of the property.

Let's look at a real-life example of a deal where there are multiple tax liens outstanding (on the next page).

This property is located in a boutique area to the west of Fort Myers. Data from the property appraiser sees the land and buildings are valued at \$63,451. Data from the tax collector reveals that the current year tax lien for sale is \$1,524.99, and that there are two other tax liens outstanding:

- 2009: \$1,641.35 attracting interest at 17%, and
- 2008: \$1,952.47 attracting interest at 7.5%.

Furthermore, the current year's taxes (which are not yet delinquent) have also not been paid. In summary then:

- The property is valued at \$63,451.
- The available tax lien at the auction was \$1,524.99.
- The value of the two outstanding prior year tax liens was \$3,593.82.
- Including the current year, the total debt is \$5,118.81.

Further notes (cont'd)

## 5464 Phillips St Bokeelia



Property Values (2010 Tax Roll) 	
Just	63,451
Assessed	63,451
Portability Applied	0
Assessed SOH	63,152
Taxable	38,152
Building	51,451
Building Features	Incl. in bldg value
Land	12,000
Land Features	Incl. in land value
SOH Difference	299

PROPERTY INFO	
Advertising Number	003535
Face Amount	\$1,524.99
Parcel ID	442228050000F0190
Alt Parcel ID	28-44-22-05-0000F-0190
Property Address	5464 PHILLIPS ST
Property City	BOKEELIA
Property Zip	33922
Use Code	0800
Use Description	MULTI-FAMILY <10 UNITS
Year Built	1982
Construction Type	
Lot Size	0
Acres	0.00
Beds	
Baths	
Living Sq Ft	2008
Adjusted Sq Ft	0
Legal Description	PINE ISLAND CENTER UNIT 3
Sale Date	N/A
Sale Price	N/A
Gross Sq Ft	
Section	44
Township	22
Range	28
Tax Area	

CERT. SUMMARY	
Unpaid Certs	2
Total Face Amt Outstanding	\$ 5,119
Redeemed Certs	0
Current Number of Bids	13

VALUATION	
Homestead Amount	\$ 25,000
Assessed Value	\$ 76,450
Building Value	\$ 79,000
Land Value	\$ 15,750
Total Value	\$ 94,750

OWNER INFO	
Owner Name 1	CUMMINGS JAMES J JR
Owner Name 2	
Mailing Address 1	5464 PHILLIPS ST
Mailing Address 2	
Mailing Address 3	
Mailing City	BOKEELIA
Mailing State	
Mailing Zip Code	33922

CERT YEAR	CERT NUM	STATUS	TYPE	BUYER NUM.	TAX DEED INFO	NOTES	ORIG. SALE DT	DAYS OPEN	ORIG. FACE AMT.	INT. RATE
2009	09004905	OPEN	I				20090521		\$1,641.35	17.00
2008	08003013	OPEN	I				20080530		\$1,952.47	7.50

### Further notes (cont'd)

Bearing all this in mind, would you have bid on this tax lien at the auction, and, if so, what interest rate would you have bid (from 0% up to 18%)?

<b>Your interest bid</b> (from 0% to 18%)	%
--	---

I bid 18% but missed out. The image below is sourced from the tax lien auction website and shows the distribution of the bids:

Interest Rate	# of Bids
18.00%	2
12.00%	8
10.00%	1
9.75%	1
9.00% (9.5% by Proxy)	1
<hr/>	
<b>Total Bids:</b>	<b>13</b>

The winning bidder bid 9.00%, but, as the next highest bid was 9.75%, the computer made a proxy bid for them at 9.50% (i.e. 25 basis points below the next highest bid).

### Your notes

Do you think the investor got a good deal? Why or why not?

# Key Websites

1. Online Auction Site
2. Tax Collector
  - Prior Year History
3. Property Appraiser
  - Property Details

TIMING: DVD ..... Approx. time .....

## Further notes

When doing my due diligence on tax liens, the sources of information I use are:

**1. Tax auction website**

This will provide a lot of information about the property, its value and any outstanding tax liens.

**2. Tax collector website**

You can see the prior history of property taxes on the property and gain an insight into the payment history of the owner. For example, some owners have a history of leaving it until they are about to lose their property before coming up with the money owed.

**3. Property appraiser**

More information about the property, including sales history, values, permits, etc.

In the early days you will want to look at all three sites, but as you become more familiar and proficient, it becomes a numbers game, which means you can narrow your search parameters and make bulk offers using the auction website only.

# Tips For Beginners

- Avoid land
- Stick to homes
- Target homestead exemptions
- Spread your money around
- Interest 15%+

TIMING: DVD ..... Approx. time .....

## Further notes

Here are four tips for beginners:

### 1. Avoid land

Unlike in Australia, land in the U.S. is not generally scarce. In a tight property market, the value of land falls sharply and is a lot harder to sell. So beginners should avoid land, as the likelihood of foreclosure is a lot higher, as is the possibility of the value falling to below the amount of the outstanding tax lien debt owing.

### 2. Buy homes

When you buy a house someone is living in as their home (you can tell this by whether they are given a homestead or owner exemption), there is a higher probability that you will be redeemed.

### 3. Diversify

Avoid putting all your capital into one or two tax liens, and instead spread them around. For example, if you have \$20,000 to invest, aim for 20 × \$1,000 liens, or 10 × \$2,000 liens, rather than 1 × \$20,000. The higher value liens are usually more competitive and therefore the interest rates on those liens tend to be lower.

### 4. Aim for 15%+ interest

If you're going to do this, then you want to make it worth your while, so don't bid below 15% interest while you are learning the ropes.

# Advanced Tips

- Leapfrog by buying out earlier liens
- Target 2 years outstanding
- Properties for sale / foreclosure
- Certain types of land

TIMING: DVD ..... Approx. time .....

## Further notes

Once you become more advanced, you may like to try some creative approaches, such as:

### 1. Leapfrogging

If there is a tax lien outstanding for an earlier year on a property on which you have also bought a tax lien, you can approach earlier tax lien holder(s) and look to buy their liens, thereby allowing you to foreclose sooner and get your money back quicker. On that point, tax liens can be assigned to another person and, as such, can be bought and sold among investors outside the auction and over-the-counter systems.

### 2. Targeted search

You may like to search and target properties for which there are two years of tax liens already outstanding. on the assumption that the older tax lien holder is about to foreclose. In this situation, you could bid 0.25% on the assumption that your minimum is 5%, and this will be earned in the month or two after purchase as the older tax lien holder buys you out in order to start the foreclose process.

### 3. Properties for sale

Another option is to target properties that are currently for sale. One way to see if the property is for sale is to google the address. The logic is that before a property's title can be transferred to the new owner, all tax liens must be repaid.

## Further notes (cont'd)

### 4. Land ahoy!

If you know what you're doing, land in certain circumstances can work. You need to do more research on resale values, though, before buying the lien, to ensure that there is a market for it in case you need to foreclose and sell to recoup your investment.

## Your notes

# Redemption Process



TIMING: DVD ..... Approx. time .....

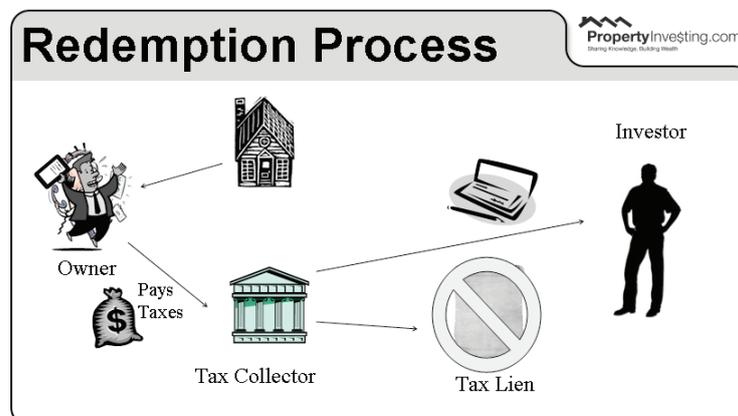
## Further notes

As our discussion of tax liens comes to an end, let's look at the redemption process in a little more detail.

### Step 1. Repayment of property taxes

The property owner has failed to pay his/her/its property taxes on time and has had a tax lien issued against the property.

However, the owner now has the money to pay the outstanding property taxes and interest, and pays this to the tax collector.



## Further notes (cont'd)

### Step 2. Checks & balances

With the property taxes paid, the tax collector removes the lien and sends the investor a check and a remittance advice.

It's also worth reminding you about some of the other rules relating to redemptions that we've already covered:

- Part payments of outstanding property taxes where liens have been sold to an investor are not allowed.
- The tax collector will mail out the check to whatever address you have nominated, including an Australian address.
- You can bank a U.S. dollar check into an Australian dollar bank account, but there will be delays and fees for doing so, and you'll also be stung with a less favourable exchange rate than you might otherwise negotiate with an electronic international money transfer.

I use Tommy Senatore's office system for receiving and banking my tax lien redemption checks. They usually send me the paperwork received from the tax collector within 24 hours, and bank within 48 hours. So far I've found it convenient and pain-free. For those reasons, I recommend it.

My experience with redemptions is as follows:

- As far as I can tell, the psychology of a U.S. property owner is that they will pay the taxes when they get around to it, and if they're late, then the interest penalty isn't too much of a concern. Remember, this a society that lives on credit cards with interest rates at 20%+ and no one blinks an eye.
- I've been surprised by how quickly my tax liens are being redeemed. This really does work, and you really do get checks sent to you on a regular basis!
- At the moment my only frustration is that once the tax liens redeem, there are not enough quality over-the-counter liens left to buy in Lee County six months after a competitive 2010 auction. This means I am pooling my money in my bank account at low interest, which has forced me to take a closer look at direct property purchases.
- My strategy while I am building up a capital base is to invest in tax liens, and, as they redeem, look to reinvest that money in foreclosures and rentals (i.e. direct property investing).

The next page contains another example of the paperwork I've received with tax lien redemptions, this time from Seminole County.

## Your notes



HONORABLE RAY VALDES  
SEMINOLE COUNTY TAX COLLECTOR

P.O. Box 630 \* Sanford, FL, 32772-0630 \* 407-665-1000 \* www.seminoletax.org



July 13, 2010

MCKNIGHT STEPHEN GEORGE  
JUST JESI ENTERPRISES LLC  
1202 SE 8TH PLACE SUITE A  
CAPE CORAL 33990

\*\* CERTIFICATE PAYMENT NOTIFICATION \*\*

Dear Holder:

ENCLOSED IS A CHECK in the amount of \$575.69 for Tax Sale Certificates in your name that have been paid.  
Please call if you have any questions regarding this matter.

Thank You.

Jed Sawyer

CERTIFICATE PAYMENT PERIOD COVERED: 07/05/2010 TO 07/09/2010							
BIDDER: 7113							Total
Year	Certificate Number	Date Paid	Certificate/TDA Face	Current Tax + Other Fees (TDAs Only)	Interest	Interest Withheld	Disbursed
2010	1732	07/09/10	548.28	0.00	27.41	0.00	575.69
NUMBER OF CERTIFICATES:			1				

County Services Building 1101 E First Street Sanford, FL 32771	Wilshire Plaza 384 Wilshire Blvd Casselton, NC 27527	Oak Groves Shoppes 995 N SR 434 Suite 505 Sanford, FL 32771	ShellMar Profl Building 1490 Swanson Dr #100 Sanford, FL 32771	Commons at Primera 846 Primera Blvd Sanford, FL 32771
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Vendor No: X17113 / Name: MCKNIGHT STEPHEN GEORGE 83807 083807  
RAY VALDES - SEMINOLE COUNTY TAX COLLECTOR - TAX ACCOUNT

DATE	DESCRIPTION	INVOICE AMOUNT	VOUCHER AMOUNT
07/13/10	070910 JS B#7113 10C#1732	575.69	575.69
Check Date 07/13/10		Total	575.69

ORIGINAL CHECK IS PRINTED ON CHEMICAL REACTIVE PAPER AND HAS MICRO PRINTING IN THE SIGNATURE LINE

RAY VALDES  
SEMINOLE COUNTY TAX COLLECTOR  
TAX ACCOUNT  
P.O. BOX 630  
SANFORD, FL 32772-0630

083807  
WACHOVIA  
Altamonte Springs, Florida 32711

PAY  
\*\*\*Five Hundred Seventy-Five & 69/100 Dollars  
TO THE ORDER OF

DATE 07/13/10 AMOUNT \$575.69

MCKNIGHT STEPHEN GEORGE  
JUST JESI ENTERPRISES LLC  
1202 SE 8TH PLACE STE A  
CAPE CORAL, FL 33990

VOID AFTER 90 DAYS  
*Ray Valdes*  
AUTHORIZED SIGNATURE

⑈083807⑈ ⑆063210125⑆2079900112807⑈



# Normal Process

- **Judicial Transfer**
  - See your attorney
  - Paperwork lodged with the court
- **Public Auction**
  - See the County Tax Collector
  - They will handle the process

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## Further notes

The final aspect of tax liens to examine, in slightly more detail, is the foreclosure process. The rules and processes to foreclose on a tax lien vary from State to State, but the two main options are:

### 1. **Judicial transfer**

You apply to the courts, via your attorney, to be awarded title to the property on the basis that the tax lien has not been redeemed in time.

### 2. **Public auction**

The foreclosure results in the property being placed up for public auction (in some states the auction occurs online), with the opening bid being the total amount that is owed in taxes, interest and fees. If the property is bought at auction then the investor is paid out and the county retains the balance (on behalf of the owner). If the property is not sold (i.e. there are no buyers at auction) then property is awarded to the investor.

In an auction where no one bids, the investor has the choice of walking away from the title, in which case they will simply lose the amount they are owed and the title will revert to the county.

## Further notes (cont'd)

Be aware that most states have a finite window of opportunity in which to start the foreclosure process. For example, in Florida, tax liens lapse seven years after being issued.

### **Homestead properties**

This topic was not covered in a lot of detail at the seminar, but it is worthwhile covering now.

When I talk about homestead properties I am not talking about a type of property – that is, a nice-looking home with a verandah – I am talking about a property where the owner also resides (i.e. it's their home).

Where a property has been identified as a homestead, the owner is afforded extra protection against the cost of property taxes and against potential foreclosure.

In Florida, a homesteaded property can still be foreclosed on in order to repay an outstanding property tax debt. However, when it comes up for auction, the opening bid is increased by 50% of the property's value. That's done to provide the owner with a little extra cash in their pocket. That said, if the county cannot find the owner, then they will eventually pocket the surplus funds.

With this in mind, when you bid for tax liens on homesteaded property you need to also add in to your calculations 50% of the current property value. This will instantly break the 40% rule I mentioned earlier, but on the upside, there is a higher chance that you will be redeemed because the property is someone's home.

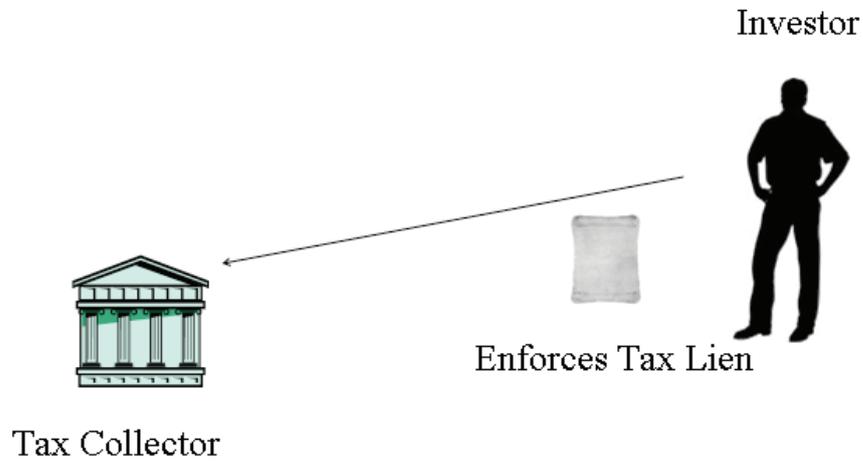
In a declining market, the strategy of buying homesteaded property may bite you, as by the time you add on 50% of the value to the opening bid, the sum of all the outstanding tax liens and interest owing may be less than the property is worth.

If you do decide to buy a tax lien on a property that is flagged as homestead, make sure you do your numbers more carefully, since the chance you will end up with the property if you foreclose may be higher.

## Your notes



# Foreclosure Process



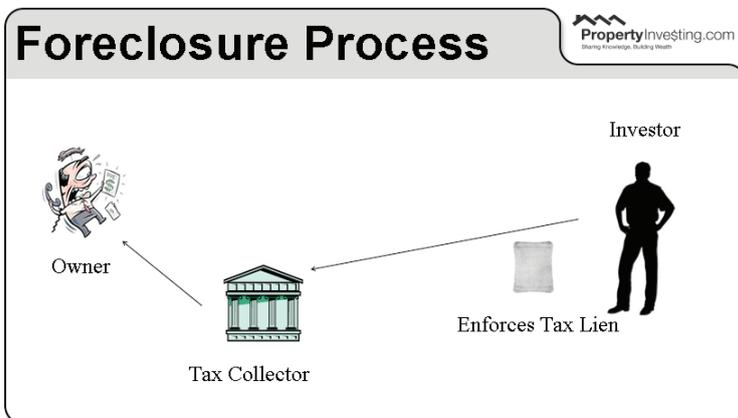
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## Further notes

### Step 1: The start

The foreclosure process begins with the investor approaching either the county or their attorney and clarifying the correct process.

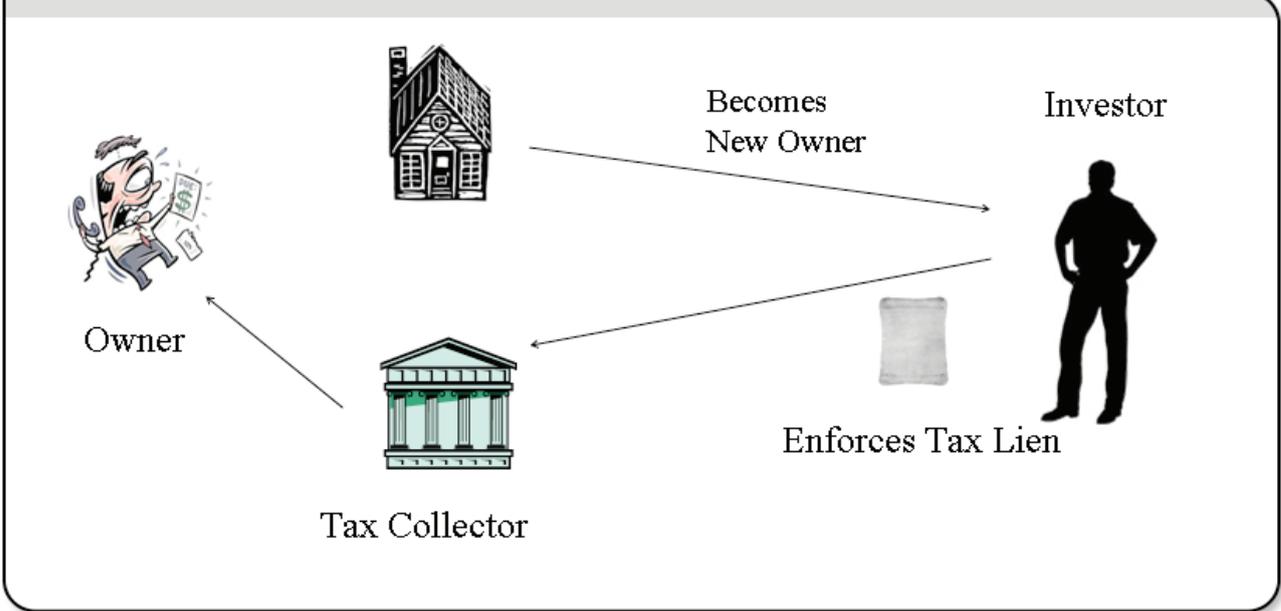
There will normally be paperwork to file, with supporting documentation, and there will be fees to pay too. Depending on the due process, and the backlog of submissions, it can take several months for the next step to occur.



### Step 2: The middle

The tax collector or court clerk will then notify the property owner and other interested parties that their ownership of, or claim against, the property is at risk of being lost unless the property taxes, interest and fees are paid by the due date.

# Foreclosure Process



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## Further notes

### Step 3: The end

The tax lien foreclosure process is completed if the property taxes are not repaid in time, and the property is either auctioned or else the property's title is transferred to the investor.

To give you some idea of the quantity of tax lien foreclosures, in Lee County there are currently between 300 and 400 foreclosure auctions per month. These are held online at <https://www.lee.realtaxdeed.com>.

## Your notes

Explain why an investor might want to foreclose on a tax lien investment, when doing so means he or she will no longer earn any interest.

Why is it so important for a property's value to be higher than the amount of the tax liens outstanding?

Given the question above, when might an investor not be interested in foreclosing on a property? Why?

# Session Conclusion

## How can tax liens fit into your investment strategy?



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### Further notes

Done right, for the sorts of returns on offer, tax lien investing would have to be one of the easiest and lowest risk investing strategies I have ever seen.

Furthermore, the due diligence is quite simple and straightforward, and aside from some running around to get registered, the online and over-the-counter purchase systems are straightforward and user-friendly.

There are downsides though, and the two biggest are the currency risk associated with investing in Aussie dollars, and the fact that once you are paid out, you have to reinvest your money – and at that time, there may not be enough tax liens of suitable quantity available for purchase over the counter.

Still, if you could earn a 15%+ return with no tenant hassles, it's worth considering how tax liens might fit into your investing plans.

### Your notes

# USA Property Investing

## Session 5

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### Direct Property Ownership



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#### Further notes

Purchasing tax liens involves buying unpaid property taxes. It is an indirect property investing strategy because the financial return is interest-based; there are no capital gains.

For those investors who want the potential of earning higher cash flow returns, or else desire lump sum cash and capital gain profits, and are willing to take on more risk to get it, buying direct U.S.A. property is worth considering – especially while real estate prices are so low and the purchasing power of the Australian dollar is so high.

If you're worried that investing in the U.S. will be significantly different to Australia, stop. Although you will soon see that some of the terms, laws and processes are different, the basic premise of buying a property to rent or improve with the aim of earning a desired financial return is the same, regardless of whether the property is in Australia or the U.S.

#### Your notes



# Comparison

	Tax Liens	Direct Property
Rights	Lien Holder	Property Owner
Investment Term	Finite	Infinite*
Capital Returns	N/A	Gains / Losses
Income Type	Interest	Rental
Ownership Costs	N/A	Owner Pays

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## Further notes

A good place to begin is by drawing a comparison between tax lien investing and purchasing direct property.

- **Rights**

Tax lien investors do not own the underlying property, whereas you will be the owner if you buy it as an investment property. Being the owner gives you the freedom to decide who lives in it, and what improvements will be made. That is, you are more in control over your profits as a direct property owner, because you have the ability to increase your returns (rather than receive a set interest return), plus you have more say in when you get paid (as opposed to waiting to be redeemed).

- **Investment term**

When you buy a tax lien you earn interest up until the time that the property taxes are repaid and the lien is cancelled. A rental property has an infinite life so long as a tenant is living in the property and paying rent.

- **Capital returns**

Tax liens do not attract capital appreciation, whereas property values rise (and fall) over time. On this point, although the near-term prediction for U.S. real estate prices remains grim, the medium and longer term pictures are significantly better.

## Further notes (cont'd)

A good indicator of this is the difference in price to buy vs. build. At the moment it is up to half as cheap to buy a second-hand house as it is to build a similar house new. This is an indication that prices have fallen to artificially low values against long-term trends.

- **Income type**

Tax lien investors earn interest. Direct property investors earn rent and can also access lump sum gains by manufacturing equity (through value adding), and capital appreciation.

- **Ownership costs**

Since tax lien investors are not property owners, they do not have to pay the normal ownership costs of insurance, maintenance and property taxes, nor do they have to worry about vacancy risks or rental management fees. Investors who purchase direct property will need to plan for and overcome these concerns.

It's definitely true that there are risks associated with direct property ownership that do not exist when buying tax liens. You will need to be paid a higher return for taking on these risks, and this means that your minimum acceptable return from direct property ownership needs to be higher than your minimum acceptable from tax lien investing.

For example, if you want a minimum of 12% on your tax lien investments, you might say you want a minimum of 18% on your direct property investments (i.e. an additional 50% return for the added risk).

## Your notes

What's your minimum annual net interest return on a tax lien investment?	%
What's your minimum annual net rental return on a direct property investment?	%



# What To Buy?

- Houses
- Multi Families
- Townhouses
- Condos
- Mobile Homes
- Commercial
- Industrial
- Land

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## Further notes

Just as the land and population of the U.S. is diverse, so too are the types of properties you can buy.

You have single-family dwellings, which could be:

- Detached houses
- Condos/units
- Townhouses
- Mobile homes.

You have commercial property, which could be:

- Multi-family dwellings (called plexes)
- Mobile home parks
- Offices
- Factories
- Warehouses.

And then, of course, there is land.

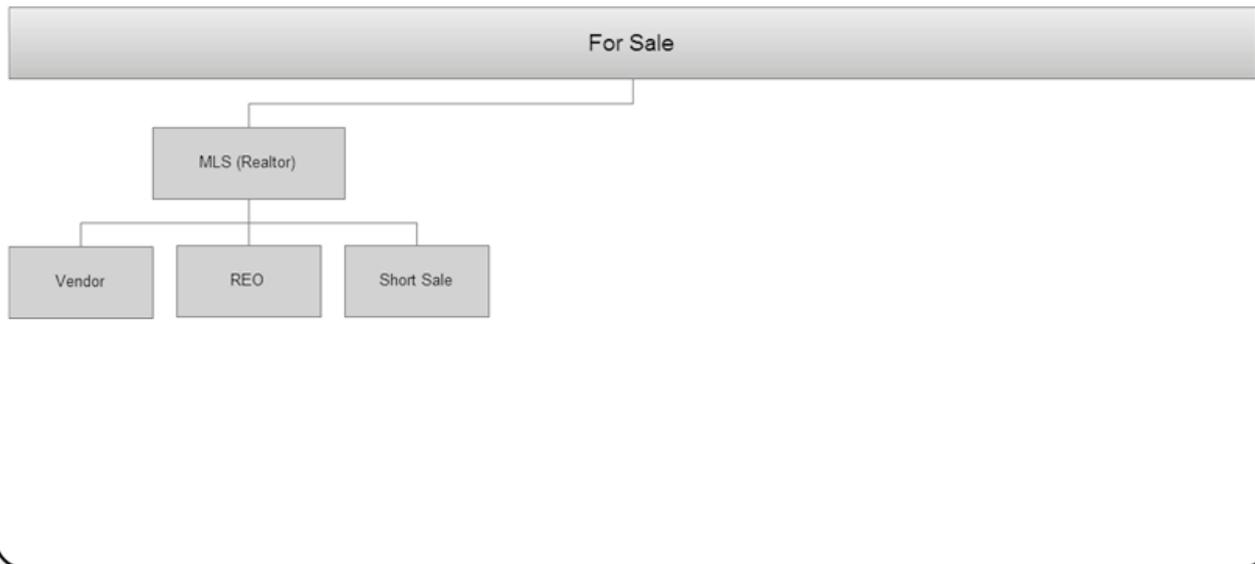
### Further notes (cont'd)

Since any of these types of property could potentially make money, the real question is, how can you acquire the necessary time, money and skill to make your desired minimum return in your chosen 'field' of investment expertise?

### Your notes

Do you have a natural bias towards any of the types of real estate mentioned on the previous page? If so, what and why?

# How To Buy



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## Further notes

Still interested in buying direct U.S. property? If so, then the three main ways to do so are: 1) through a realtor, 2) at a foreclosure auction and 3) via the For Sale By Owner network. Let's take a quick look at each before closer examination later on.

### 1. MLS (realtor)

When searching for properties that are for sale, your first and easiest option is to scan the Multiple Listing Service (called the MLS). This is a nationwide database of properties managed by the National Association of Realtors. The closest thing to the MLS in Australia is the database of properties available at Realestate.com.au.

In the U.S., a real estate agent is called a 'realtor'. One difference to the way property is sold in Australia and the way it is sold in the U.S. is that in the U.S. a usual (but not mandatory) practice is for the buyer to have a realtor acting for them, and then the seller has another realtor as their agent.

This means that there are four parties to the sale (buyer, seller and two realtors), and so time can be wasted going back and forth. The commission paid by the seller (the norm is 6%) is then split between both realtors.

### Further notes (cont'd)

Realtors act as sellers' agents for the following sorts of people:

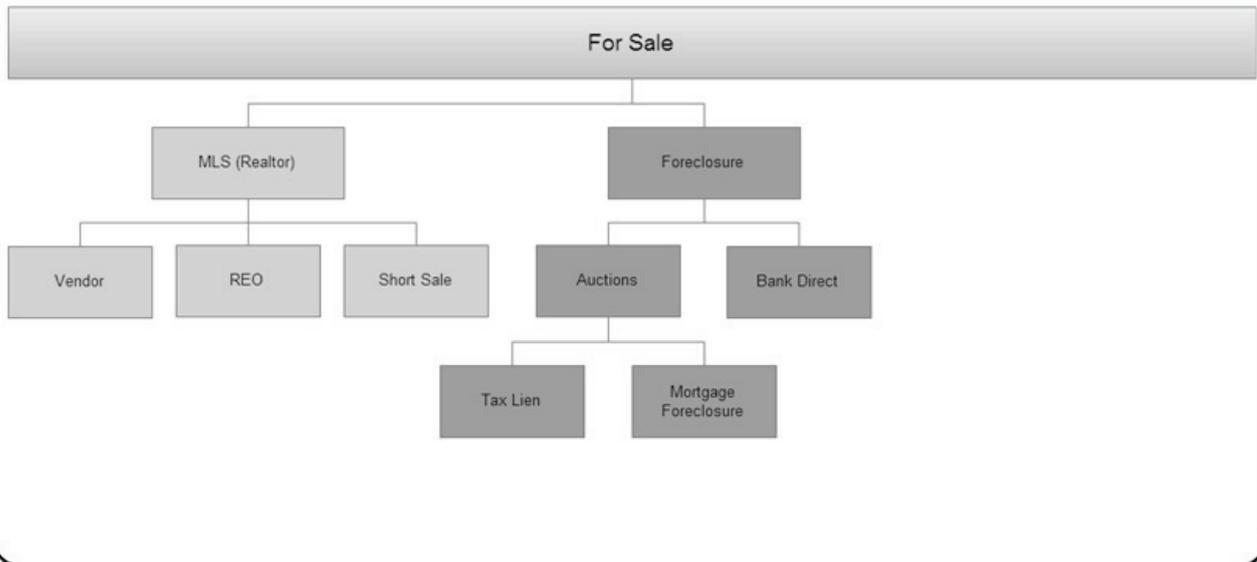
- Homeowners who want to upsize, downsize or side-size
- Investors selling investment property
- Businesses owning their own premises
- Financiers who are selling property they have foreclosed on (called real estate owned (REO) property)
- Homeowners and financiers under an agreed 'short sale'.

Only member realtors can access the MLS directly. Third-party users need a portal or interface, and the most common one is [www.realtor.com](http://www.realtor.com).

### Your notes

Test out Realtor.com by doing a search on Las Vegas properties valued between \$0 and \$30,000. How many come up? Can you find one that looks good?

# How To Buy



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## Further notes

### 2. Foreclosure auctions

As mentioned, the easiest option when searching for investment property will be searching the MLS and dealing with realtors. However, a second option exists that involves buying property at a foreclosure auction – either live or online.

The two most common reasons why properties are foreclosed are:

1. The mortgage is in default, or
2. A tax lien has not been redeemed in time.

Banks may sell foreclosed properties direct to the public, but, for reasons described soon, such opportunities are usually for sophisticated and well-heeled investors.

In Australia, when a bank forecloses on a property, that property has to be sold 'at public auction', with the bank normally setting an auction reserve of at least what they are owed. The same happens in the U.S.

You may remember from earlier discussion that foreclosed properties which the bank has repossessed are often resold via the MLS, with lenders appointing realtors to act on their behalf. In order to do this, though, the bank must first have taken the property to auction and effectively bought it back.

### Further notes (cont'd)

Under this second purchasing option, purchasers are not buying through realtors but are buying at foreclosures auction and may be bidding against the bank until the bank's reserve is reached.

Foreclosure properties can generally be bought cheaper than on the MLS, but the quality of the title being acquired can be compromised, since some liens remain attached to the property and will become your responsibility to repay. For example, if you buy a property at a mortgage foreclosure auction, then you will have to pay any outstanding property taxes and tax lien certificates.

It can also be more difficult, and more expensive, to insure the title of a property purchased at a foreclosure auction, and this highlights that extra due diligence is needed if you buy using this approach.

### Your notes

# Title Insurance

- What Is It?
- Types of Deeds
  - Warranty Deed
  - Quit Claim Deed

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## Further notes

### **Title insurance**

One significant difference between Australian and U.S. real estate is the concept of title insurance.

In Australia, when a property is purchased, a solicitor or conveyancer checks to see that the title is free from claims and encumbrances. This is possible because the databases of land and land claims are current and reliable.

In the U.S., property records have historically not been kept as well, and so a system has evolved whereby a property's title can be insured against loss from unknown title defects.

When you buy a property from a realtor, in almost all cases you will be buying what's called a warranty deed – the highest form of deed available, because the seller guarantees (warrants) that he or she holds clear title and has the right to sell it.

On closing, the paperwork you receive from the title company (the company or solicitor hired by the seller to handle the creation and lodging of the required paperwork) should include a copy of the title insurance.

If you buy a property without title insurance, you can always try and insure it later on. Of course, if there are any liens or claims then your ownership interest may be questioned.

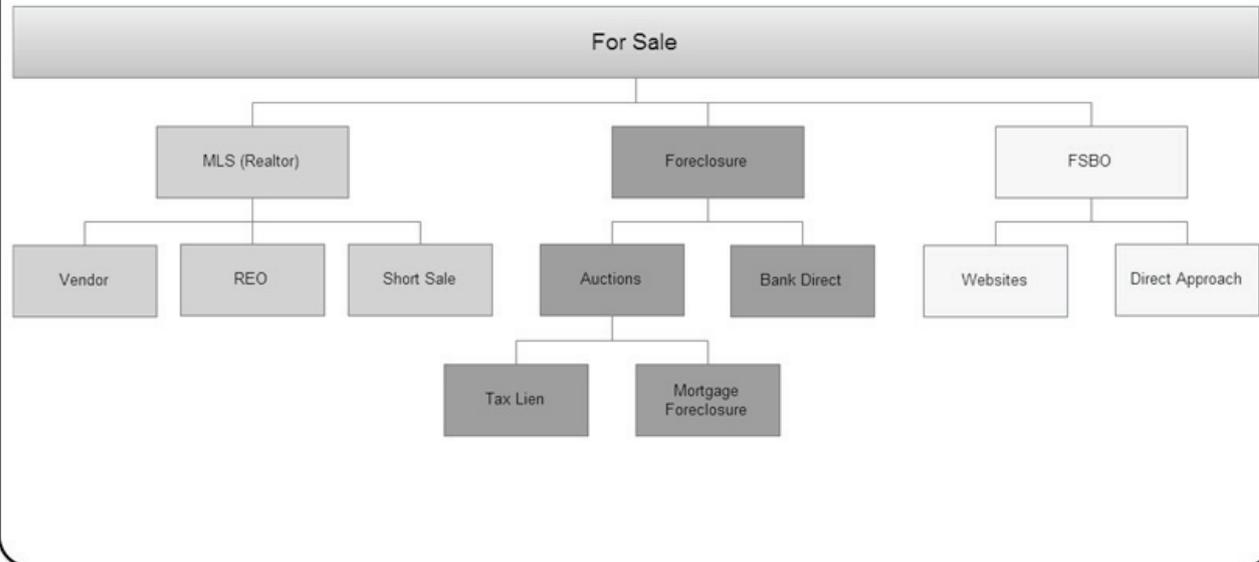
### Further notes (cont'd)

Another type of deed that properties are sold under is called a quit claim deed. This is where the seller disclaims any interest she or he may have in the property, and transfers that interest to the buyer. An example of a quit claim deed would be where one partner transfers ownership to the other in a divorce, or where one investment entity transfers ownership to another investment entity in the same group.

Tax deeds (i.e. foreclosures on tax liens not redeemed in time) are often sold as quit claim deeds, which is why investors buying these properties need to do their homework by researching the title thoroughly.

### Your notes

# How To Buy



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## Further notes

### 3. For Sale By Owner

The final major way to buy property is using the 'For Sale By Owner' system. Given the U.S. property market is a lot bigger than Australia's, and given that the commission paid to realtors is higher (6% in the U.S. compared to 3% here), many buyers try and sell the property themselves to save extra dollars.

There are many websites that act as clearing houses or online markets for vendors who want to sell FSBO. More information about FSBO is provided shortly.

## Your notes

Do a Google search on 'FSBO' and compare the FSBO system in Australia to what happens in the U.S.

# What To Buy In?

## Considerations:

- Asset protection
- Tax planning
- Cost
- Suitability for your 'big picture'

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## Further notes

After deciding how you want to purchase direct property (i.e. through a realtor, at a foreclosure auction or via the FSBO network), the next consideration is, 'What entity or structure should I purchase under?'

James Simango from U.S. Tax Central will provide more information soon, but as an overview, here are four broad structuring considerations:

### 1. Asset protection

U.S. citizens tend to be a litigious bunch, and so if you are planning on buying direct property then you must carry adequate insurance. It's also best practice to purchase your property in an entity that provides the owners with limited liability. In my case, I use a Limited Liability Company that was incorporated in Florida.

### 2. Tax planning

As in Australia, the various U.S. entities you can invest under are taxed according to different rules and at different rates. Your U.S. accountant will be able to advise you about what's best in your circumstances.

## Further notes (cont'd)

### 3. Cost

The more elaborate your structure, the more expensive it will be to set up, maintain and eventually wind up. Before creating a structure, think about what you're trying to protect, because there's no point protecting an empty castle, nor do you need the accounting equivalent of guard dogs and barbed-wire fences to protect low-value assets.

### 4. Big picture

Make sure you have a structure that is flexible enough to grow as your investing activities expand.

## Your notes



# Liability - Issue

- **As the owner you can be sued**

- Tenants
- Tradespeople
- Passer-bys
- County



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## Further notes

Since U.S. citizens have a predisposition towards litigation, law suits are often threatened and used in a way which doesn't happen in Australia.

While I don't think that it's necessarily needed unless there is a specific known risk, the frequency of legal action has created a new form of insurance which allows you to protect yourself against the high costs of defending law suits.

In regards to who may sue you, if something you did (or did not do) causes loss or damage to someone or their property, then you may be sued by:

- Tenants
- Tradespeople
- Passers-by.

And you may be sued by the county (and fined) if you break any of their codes.

The threat of being sued is real and you should treat it seriously.

Your notes

# Liability - Overcoming

- **Protect your self from law suits by**
  - Maintaining a safe rental
  - Carrying public liability insurance
  - Investing thru a limited liability entity
  - How you store your personal wealth

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## Further notes

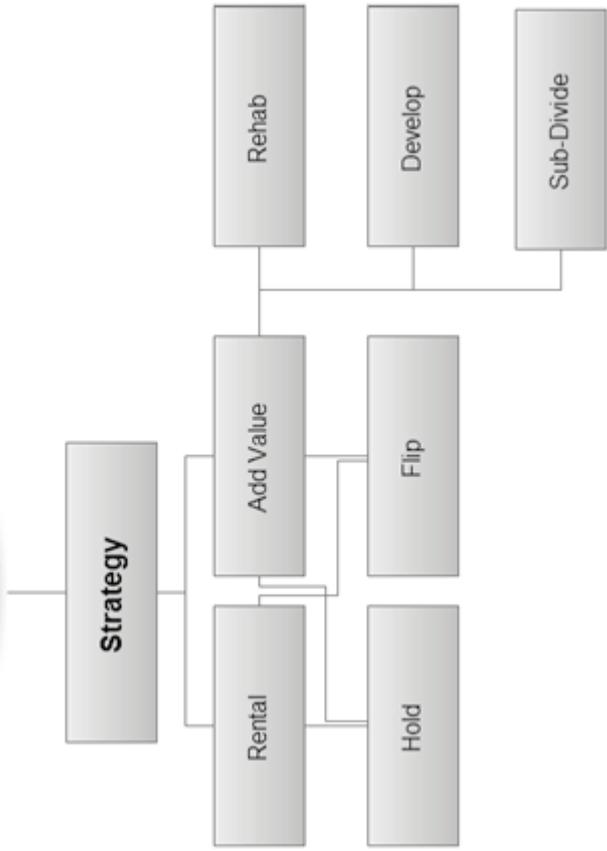
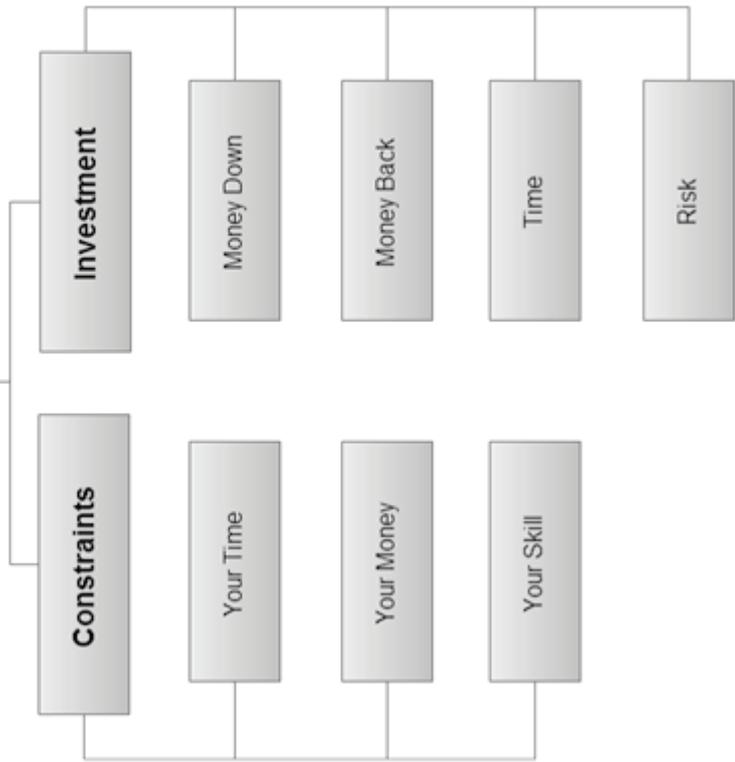
When thinking about the risk of potential litigation, remember that prevention is far better than cure. That is, reducing the likelihood of being sued in the first place is a far better strategy than fighting law suits as they occur.

Keeping your rental properties clean and safe is obviously good business practice, but it will also reduce the risk of slips and falls. You also want to make sure the electricals are safe, the wet areas drain properly, and the pathways, roof and guttering are in good order.

At a minimum you will want to ensure your investment has public liability insurance. In some instances, the cost of carrying building insurance will make it uncommercial. This being the case, it's wise to get insurance quotes *before* you commit to buying (as part of your due diligence). If you can't get building insurance, then I would think twice about buying.

While your choice of ownership structure can add protection by creating a barrier between your personal and investment assets, remember that all assets in that structure are at risk if the structure is sued. That's why you may want to set up multiple entities as your portfolio grows.

Finally, the way you store your personal wealth is important. Rest assured that if you are sued, the lawyers will be trying to work out what assets they can get their hands on, and so it is smart to get advice on how to retain control of significant personal assets without owning them (and therefore potentially having them taken away).



# Quick Questionnaire

<b>1</b>	How much money do you have to invest in the US?	
<b>2</b>	How much time do you have to allocate to this?	
<b>3</b>	What sort of return per annum are you looking to achieve?	
<b>4</b>	How big do you envisage this to be?	

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## Further notes

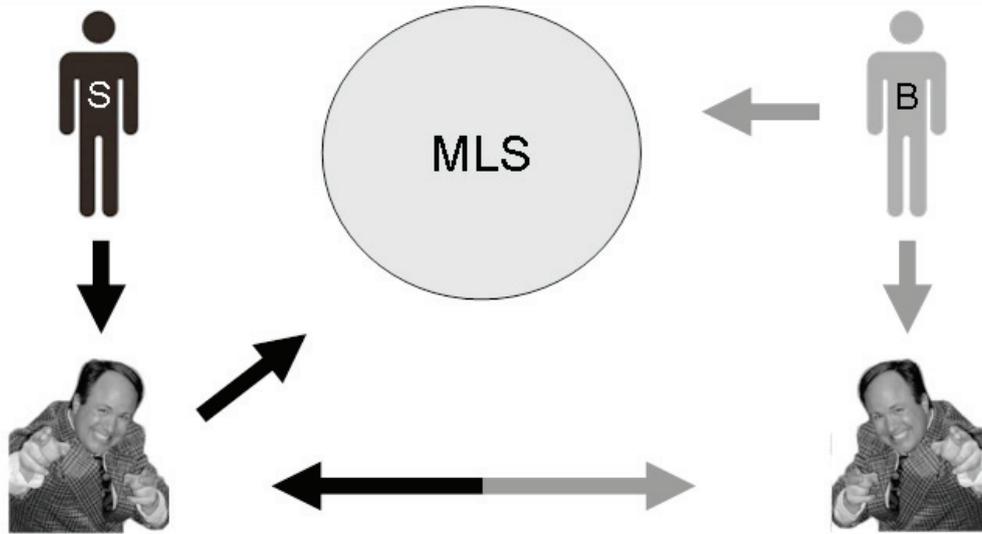
The diagrams on the previous page link many of the concepts mentioned in this product in such a way that you can see how they relate and influence one another. The smiley face represents you, and shows how your time, money and skill constraints shape what you can realistically achieve from your investing. Quite often your constraints will cause a conflict with your investing ambitions, so one of your most difficult jobs will be to find a way to keep both sides in some sort of sustainable harmony.

The house represents your investment(s). In contemplating your strategy, you need to think about your desired return (cash flow, cash or capital gains), and then which strategy is going to help you achieve that outcome so that you make the most money, with the least risk, in the quickest time.

## Your notes

1. Explain how your constraints impact these four questions: How much down? How much back? How much time? How much risk?
2. What financial return(s) and strategies do you have a natural interest in? Why?
3. Answer the four questions raised in the slide at the top of this page.
4. What insights have you gained about yourself and your investments by answering them?

# MLS



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## Further notes

Let's now take a closer look at the three ways to buy U.S. real estate, starting with realtors and the MLS.

The relationship between realtors, buyer and sellers is slightly different in the U.S. than it is in Australia. In Australia, if you see a property and want more information, you tend to contact the agent that has the listing. That agent will answer your questions and will assist in writing up the sales contract. In the U.S., although you can deal directly with the selling agent, buyers tend to retain their own realtor to act on their behalf, prepare the contract, and negotiate with the seller's realtor. Why do they do this? It's hard to tell, but it seems that's just the way the system evolved.

When you think about it, a system of two realtors (one for the buyer and one for the seller) actually works in favour of foreign buyers, because it conceals that you are not a U.S. citizen, since your American realtor is your representative. It also makes life easier for you, because all you need to do is find one realtor you like working with, and then use that contact to manage your offers across the whole U.S.A. This is what I do.

In the U.S., the seller pays the sales commission to their realtor, who then shares the commission with your realtor. Sometimes, and especially on short sales and foreclosures, your realtor may charge you extra commission to make it worth their while given the extra time and effort involved. For example, I pay my realtor \$1,250 per property I buy, and if the commission paid by the selling agent isn't enough, I kick in the shortfall.

# Options

- Search the MLS  
– [www.realtor.com](http://www.realtor.com)
- MLS Alerts

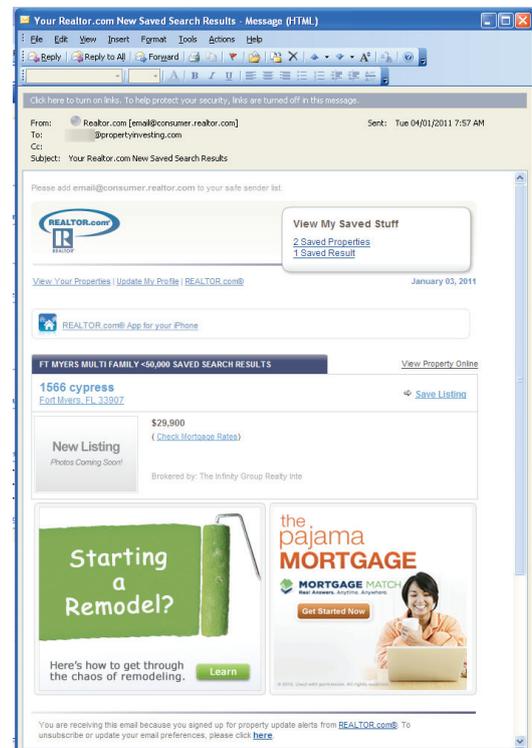


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## Further notes

In addition to searching portal websites like Realtor.com, I recommend that you set up automatic alerts so that when properties that meet your 'target profile' are listed, you're sent a computer-generated email telling you about it.

Here's an example of an email alert that I received from Realtor.com based on one of my 'saved search results'.



# Options

- Search the MLS
  - [www.realtor.com](http://www.realtor.com)
- MLS Alerts
- 'Realtor' Alerts

TIMING: DVD ..... Approx. time .....

## Further notes

There is another, and in my opinion better, option for accessing the MLS, but to do it you will need to build a relationship with a realtor who has the appropriate access to the MLS (not all realtors pay for MLS subscription).

What happens is that the realtor sets up your search parameters within their MLS account (rather than a website that is a portal to the MLS), and that way you get access to the information slightly earlier, plus you get alerts when the price of properties that you 'watching' changes. Here's what those emails look like:

Newly matched and updated listings from **Steve J. Janssen**  
● MLSAutoProspecting@rapattoni.com on behalf of ● **stevejanssen@gmail.com**  
To: **stevejanssen@propertyinvesting.com**

**Property information prepared exclusively for: STEVE MCKNIGHT**

**Listings have been added to your Client Portal!**

Click below to visit your Client Portal and view new and/or recently modified listings that match your criteria:  
[View Newly Matched Listings](#)

**The Price or Status of the following listing(s) in your Client Portal has changed.**

Click a listing number below to view the most recent property information:  
[201024387, 201048249](#)

Provided by:  
**Steve Janssen**  
**Available: 401-848-8888**  
10000 Old Orchard Road  
Suite 1000  
Dallas, TX 75241  
Phone: 409-488-2222  
www.propertyinvesting.com  
http://www.stevejanssen.com

If you want to stop receiving property information e-mail messages from me, please [click this link to unsubscribe](#).

## Further notes (cont'd)

Furthermore, this option has a separate area (a client portal) where you can view and track your hot list properties. Here's what it looks like:

The screenshot shows a real estate client portal for Advantage Realty. At the top, it says "Prepared Exclusively For: STEVE MCKNIGHT" with a date range filter. Below that, there are buttons for "Newly Matched (13)", "Agent Recommended (0)", "Saved (41)", and "Rejected (691)". There are also buttons for "Show All Listings" and "Help". The main content area shows a list of properties under the "Residential (5)" and "Residential Income (8)" tabs. The first listing is for 201055734, an Active property at 2972 Evans Ave, Fort Myers 33901, priced at \$24,999. The second listing is for 201054521, an Act Cont Short Sale property at 217 Brooks Ct, North Fort Myers 33917, priced at \$24,000. Both listings include a photo, address, subdivision, and property information. There are also buttons for "View Details", "Post Comments", "Pictures", "See Map", "Save", and "Reject".

I prefer to use this portal as my main source of potential properties (I usually get two to three emails a day advising of new or updated listings), and I supplement it with a weekly check at realtor.com

A final option is to source deals from 'REO' (real estate owned) websites. These are websites created by financiers to sell properties they have repossessed. You won't be able to deal with the bank direct, but these websites will point you in the direction of the realtor hired by financier to sell the property. You would expect that foreclosures properties listed on an REO website would be for sale through the MLS, but this isn't always the case.

## Your notes

Take a moment and do a Google search on 'Wells Fargo REO'. This is the Wells Fargo (a bank in the U.S.) website, which you can use to search property they have foreclosed on and which is now for sale (through their appointed realtor).



# Types Of Sales

## 1. Vendor

- Being sold by the owner
- Price and terms negotiable
- Easier to negotiate
- Quick closing

TIMING: DVD ..... Approx. time .....

### Further notes

The first and most common type of realtor sale is where the owner is the vendor and the property is being used as a home or investment property.

The price and terms of these sales are generally more negotiable, especially if you're seeking creative finance (such as vendor carry back loans).

Unlike Australia, where it normally takes 30+ days to settle, properties in the U.S. can 'close' extremely quickly: in a matter of days. Being a cash buyer and being able to close quickly are two very powerful negotiating advantages you can use to bargain down the price.

Most vendor sales are 'warranty deed' sales, and as mentioned earlier, this means that the title will be free and clear of encumbrances, and that it will be easy to get a title company to insure the title against claim or defect.

Vendor sales are advertised on the MLS and on FSBO websites. Realtors are normally, but not always, used.

### Your notes

# Types Of Sales

## 2. REO (Real Estate Owned)

- Being sold by the financier
- Price and terms negotiable
- Easy-ish to negotiate
- Quick closing

TIMING: DVD ..... Approx. time .....

### Further notes

The second type of sale is a mortgage foreclosure, more commonly known as a real estate owned (REO) sale. This is where the financier has taken or bought back the property's title (usually at the foreclosure auction), and is now reselling it via a realtor on the open market.

The price and terms on REO properties are certainly negotiable, but in preparation for sale, the financier will have ordered a valuation and your offer will need to be 'in the ball park' in order for the financier to accept it.

In the REOs that I've bought, the financiers have been relatively quick in getting back with a response, and have wanted to close in around 14 days. Unless otherwise mentioned, it is normal for the title of REO properties to be 'free and clear', meaning that there won't be any encumbrances such as mortgages or liens outstanding. The sale should also come with title insurance.

Foreclosure sales where the title has reverted to the bank are normally sold via realtors and are usually, but not always, advertised on the MLS. They can also be advertised on a financier's own REO website.

Your notes

# Types Of Sales

## 3. Short Sale

- ‘Proceeds fall short of the amount owed’
- Vendor and bank have to agree
- Can take a long time to close
- Price and terms negotiable

TIMING: DVD ..... Approx. time .....

### Further notes

Given the decimation of property prices in post-GFC America, the number of short sales is increasing, as more and more homeowners find themselves with mortgages that exceed the value of their properties.

A short sale is where the expected proceeds of the sale fall short of what is owed. However, as part of the negotiation between the lender and the owner, in an agreed short sale the lender will not pursue the owner for the shortfall.

This is a win/win, as the lender gets their property back in a better condition than if it was abandoned, and the owner saves his/her credit record from being tainted with a foreclosure recorded against it.

Short sales are difficult for buyers to negotiate, as there are now five parties who have to agree: you, the seller, the buyer's and seller's realtors, and the financier. This often causes delays of weeks, if not months. Although a realtor can submit an offer quickly, it can take 90 days or longer to hear back from the financier as to whether or not it is acceptable.

Some rather random things can happen as well. For example, I made an offer on a short sale of \$19,000 on a property that was listed for \$21,000. The realtor submitted the offer, and then the financier countered at \$29,000. How does that work... to counter for more than the list price? Anyway, as at the time of writing, I countered at \$21,000 as my 'best and final offer'. I'm waiting to hear back.

Short sales are normally advertised on the MLS. They are clearly advertised as short sales.

# Foreclosures

Where the owner has lost title  
and the property is being sold  
to satisfy a debt

- Mortgage
- Tax Lien



TIMING: DVD ..... Approx. time .....

## Further notes

In Australia, while councils have the power to auction your property for unpaid property rates, it rarely happens. Furthermore, while lenders can and will foreclose on your mortgage if you don't pay, this tends to be a quiet matter for the most part (although you do see 'Mortgagee Auction' splashed around on ads as a way of attracting buyers). It's a different situation in the U.S., where the sheer number of people who live there, and the diversity of ethnic, educational and income backgrounds mean that foreclosures are an accepted fact of life.

In a mortgage foreclosure, the property is usually sold at public auction (which can be held live or online) by the county's court clerk. Provided they are registered (as needed), and have the cash, potentially anyone can acquire a foreclosed property.

Often though, the lender will be bidding against you, because the winner gets the property with the mortgage cancelled. Since they are owed money on it, they can bid up to the amount they are owed and not be out of pocket. That is, the lender is owed the money and are forcing the foreclosure to recover title. So, if they buy it, the money they pay up to the value of their debt goes to themselves. A property passed back to the financier at a mortgage foreclosure will usually later appear as a REO sale and be available through the either the financier's REO website and/or the MLS.

One observation I've made is that having your property foreclosed on in the U.S. has far less social stigma attached to it than it does in Australia. This is especially so since the GFC, which has resulted in values falling by as much as 80%.

# How To Buy

## • Public Auction

- Online
- Foreclosures



December 2010						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1 Auctions 0 / 50 FC 09:00 AM ET	2 Auctions 0 / 43 FC 09:00 AM ET	3 Auctions 0 / 21 FC 09:00 AM ET	4
5	6 Auctions 0 / 73 FC 09:00 AM ET	7	8 Auctions 0 / 87 FC 09:00 AM ET	9 Auctions 0 / 50 FC 09:00 AM ET	10 Auctions 23 / 26 FC 09:00 AM ET	11
12	13 Auctions 41 / 57 FC 09:00 AM ET	14	15 Auctions 47 / 54 FC 09:00 AM ET	16 Auctions 30 / 34 FC 09:00 AM ET	17 Auctions 30 / 34 FC 09:00 AM ET	18
19	20 Auctions 66 / 80 FC 09:00 AM ET	21	22 Auctions 32 / 36 FC 09:00 AM ET	23	24	25
26	27 Auctions 54 / 57 FC 09:00 AM ET	28	29 Auctions 28 / 31 FC 09:00 AM ET	30	31	

(Active / Scheduled), TD = Taxdeed, FC = Foreclosure  
 << November Today December 2010 January >>

TIMING: DVD ..... Approx. time .....

### Further notes

Foreclosure auctions were once held (literally) on the steps of the local county court. In some cases they still are, but the trend is towards online auctions.

For instance, in Lee County Florida, both tax lien foreclosures (called tax deeds) and mortgage foreclosures are auctioned online using systems written by Real Auction. At the time of writing the links were:

- Tax deeds: <https://www.lee.realtaxdeed.com>
- Mortgage foreclosures: <https://www.lee.realforeclose.com>.

Let's take a look at how this works using a property that was being auctioned as a mortgage foreclosure on the 10th December 2010. The record over the page was extracted from the foreclosure auction website for Lee County.

## Further notes (cont'd)



<p style="text-align: center;"><b>Auction Starts</b> 12/10/2010 09:00 AM ET</p> <p style="text-align: center;"><input type="button" value="Place Bid"/></p> <p style="text-align: center;">My Proxy Bid \$0.00</p>	<p><b>Auction Type:</b> FORECLOSURE</p> <p><b>Case #:</b> 08-CA-001705</p> <p><b>Final Judgment Amount:</b> \$1,266,809.83</p> <p><b>Parcel ID:</b> 22-45-23-C1-03448.0120</p> <p><b>Property Address:</b> 5705 CHIQUITA BLVD S CAPE CORAL, 33914</p> <p><b>Assessed Value:</b> \$468,419.00</p> <p><b>Plaintiff Max Bid:</b> Hidden</p> <p style="text-align: right;">Name On Title SteveMcKnight</p>
--	--

This property has been through the court process and had a final judgement issued against it for \$1,266,809.83. At a guess, this is probably what is owed to the lender in principal and interest outstanding up until foreclosure date. The owner would have been notified of this judgement and been given time to repay it. They didn't, and the property is scheduled for public auction.

Note that the shortfall owing is not forgiven if the security is not enough to cover the debt. Rather, the individual still owes the money, it's just that the property is no longer mortgaged as security against that debt.

A search of the property appraiser's website revealed that the property is a three-bedroom, two-and-a-half bathroom home with water boat access to the Gulf of Mexico. It is only worth \$468,419, so you can see that it has significantly fallen in value against what is owed.

**Lee County Property Appraiser** Tax Year 2010

Next Lower Parcel Number Next Higher Parcel Number Tax Estimator Cape Coral Fees Tax Bills Print

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**Property Data for Parcel 22-45-23-C1-03448.0120**

<p><b>Owner Of Record</b> BARKER ROY D + PATRICIA P 5705 CHIQUITA BLVD S CAPE CORAL FL 33914</p> <p><b>Site Address</b> 5705 CHIQUITA BLVD S CAPE CORAL FL 33914</p> <p><b>Legal Description</b> CAPE CORAL UNIT 67 BLK 3448 PB 25 PG 61 LOT 12</p> <p><b>Classification / DOR Code</b> SINGLE FAMILY RESIDENTIAL / 01</p>	<p>[ Viewer ] Tax Map [ Print ]</p>  <p>[ Pictometry Aerial Viewer ]</p>	<p><b>Image of Structure</b></p>  <p>10118190 1 01/30/2008 Photo Date January of 2008</p>
--	---	--

Property Values (2010 Tax Roll)		Exemptions		Attributes	
Just	468,419	Homestead	25,000	Land Units of Measure	UT
Assessed	468,419	Additional Homestead	25,000	Total Number of Land Units	1.00
Portability Applied	0	Widow	0	Frontage	0
Assessed SOH	468,419	Widower	0	Depth	0
Taxable	418,419	Disability	0	Total Number of Buildings	1
Building	290,888	Wholly	0	Total Bedrooms	3
Building Features	Incl. in bldg value	Senior	0	Total Bathrooms	2.5
Land	177,531	Agriculture	0	Total Buildings Sq Ft	4,679
Land Features	Incl. in land value			1st Year Building on Tax Roll	2000
SOH Difference	0			Historic District	No

## Further notes (cont'd)

A quick search of the sales history (at the property appraiser's website) showed that the property had been bought for \$937,500 in May 2006; a 50% drop against current value. Based on these numbers, you can see how this property ended up in mortgage foreclosure.

Sales / Transactions					
Sale Price	Date	OR Number	Type	Description	Vacant/Improved
937,500.00	05/25/2006	<a href="#">2006000218331</a>	06	<b>Sales qualified and included for sales ratio analysis</b> Qualified (Fair Market Value / Arms Length / One STRAP #)	I
40,000.00	06/10/1999	<a href="#">3132/344</a>	01	<b>Sales disqualified as a result of examination of the deed</b> Disqualified (Doc Stamp .70 / SP less th \$100 / Other Disq)	V
0.00	12/01/1983	<a href="#">1702/4268</a>	07	<b>Not Classified</b> No Longer Used (was Disqualified - Mail Order Sales)	V
15,400.00	12/01/1979	<a href="#">1401/2088</a>	02	<b>Sales qualified but excluded from sales ratio analysis</b> Qualified (Multiple STRAP # / 06-091)	V

It's always a good idea to look up a property's address using Google Maps to gauge location and proximity to amenities. When we do that for this property, we quickly see it has water access direct to the Gulf of Mexico. This feature means that the property would command a higher than normal price for that neighbourhood.



At the live seminar, our discussion finished there because the auction had not yet been held. Now, however, we can search the results on the county tax deed website (see the image on the next page) to see what happened.

This was an interesting auction because there were multiple bidders. You will notice from the bid history on the next page that there are 'auto bids' generated by computer, which are usually \$100 higher than the other bids. This simply means that bidders have put in their reserve prices, and if that is higher than the current bid, then the offer is increased by \$100 (the minimum price increment).

## Further notes (cont'd)

Auction			
Bidder ID	Bid Info	Bid	Date/Time
	Opening Bid	\$0.00	12/10/2010 09:03:01 AM
	Auto Bid	\$325,100.00	
5702	tied high bid	\$326,200.00	12/10/2010 09:03:31 AM
5815		\$326,200.00	12/10/2010 09:03:24 AM
	Auto Bid	\$326,300.00	
5833		\$327,000.00	12/10/2010 09:03:41 AM
	Auto Bid	\$327,100.00	
5702		\$327,300.00	12/10/2010 09:03:52 AM
	Auto Bid	\$327,400.00	
5815		\$335,000.00	12/10/2010 09:03:52 AM
	Auto Bid	\$335,100.00	
5833		\$336,000.00	12/10/2010 09:04:04 AM
	Auto Bid	\$336,100.00	
5702		\$336,200.00	12/10/2010 09:04:17 AM
	Auto Bid	\$336,300.00	
5768		\$337,200.00	12/10/2010 09:04:24 AM
	Auto Bid	\$337,300.00	
	Auto Bid	\$338,100.00	
5702		\$338,800.00	12/10/2010 09:04:41 AM
	Auto Bid	\$338,900.00	
5702		\$340,200.00	12/10/2010 09:04:58 AM
	Auto Bid	\$340,300.00	
5768		\$340,400.00	12/10/2010 09:05:27 AM
5702		\$342,200.00	12/10/2010 09:05:22 AM
	Auto Bid	\$342,300.00	
5768		\$342,400.00	12/10/2010 09:05:48 AM
	Auto Bid	\$342,500.00	
5702		\$345,200.00	12/10/2010 09:05:53 AM
	Auto Bid	\$345,300.00	
5768		\$345,400.00	12/10/2010 09:06:49 AM
5833		\$346,000.00	12/10/2010 09:06:45 AM
	Auto Bid	\$346,100.00	
5768		\$346,200.00	12/10/2010 09:07:27 AM
	Auto Bid	\$346,300.00	
5768		\$346,200.00	12/10/2010 09:07:27 AM
	Auto Bid	\$346,300.00	
5833		\$362,000.00	12/10/2010 09:07:29 AM
	winning bid	\$362,100.00	
	Auction Closed		12/10/2010 09:08:00:00 AM

The final bid was made by Plaintiff: Deutsche Bank National Trust Company, as Trustee for American Home Mortgage Assets Trust 2007-1, Mortgage-Backed Pass-Through Certificates Series 2007-1

In the total amount of: \$362,100.00

Bidder 5768 seemed genuine, as they bid up to \$348,200; however, they were trumped by Bidder 5833, who placed a knock-out bid at \$362,000. Even so, the bank had a higher minimum value, and so it made an auto bid at \$362,100. A quick search revealed that bidder 5833 is Turn Key Residential #2 LLC. I have no idea who they are, but they sound like an investor.

As the winner, the bank pays itself the money, so it is not really out of pocket except that it also has to pay the county a small administration/transaction fee, and this fee is determined by the end price.



# How To Buy

- **Public Auction**

- Online
- Tax Deeds



TIMING: DVD ..... Approx. time .....

## Further notes

You may remember from our earlier discussion that a tax lien that is foreclosed upon changes its name to a tax deed. Depending on the state, if the tax deed does not pass to the investor by judicial review, it will most likely be sold at public auction.

Again, just as with mortgage foreclosures, in many counties tax deed sales still take place on the steps of the local court (or inside in a small room). However, more progressive counties have moved to online auctions.

In Lee County, the online tax deed auctions are held weekly on every Tuesday. Let's take a sample tax deed that was sold online on 14th December 2010. This record is extracted from the Lee County tax deed foreclosure auction website.

PropertyInvesting.com  
Sharing Knowledge, Building Wealth

Auction Starts 12/14/2010 10:00 AM ET	Auction Type: Case #: Certificate #: Opening Bid: Parcel ID: Property Address:	TAXDEED 2009006340 2007041363 \$8,405.89 084425P3035010070 1126 MARSH AVE FORT MYERS, 33905
--	---	---

Place Bid

My Proxy Bid: \$0.00      Name On Title: SteveMcKnight

### Further notes (cont'd)

This property would have once been a tax lien purchased by an investor hoping for an interest return. However, as the owner did not repay the taxes owing before the deadline, the investor would have applied to the Lee County tax collector to begin the foreclosure process.

Remember, in some counties the tax collector will manage the foreclosure, but in other counties you will need to get your attorney to do it.

In any event, in order to apply for foreclosure, the investor has to 'pay out' any other outstanding tax liens. A quick look at the tax history of this property on the tax collector's website revealed this was the case:

Account	Tax Year	Name/ Address	Status/ Outstanding Balance	
08-44-25-P3-03501.0070	2010	HOMESTRETCH INVESTMENTS LLC 1126 MARSH AVE	OPEN \$584.31	<a href="#">Details</a> <a href="#">Add to Cart</a>
08-44-25-P3-03501.0070	2009	GONZALEZ ELISEO 1126 MARSH AVE	DELQ \$624.14	<a href="#">Details</a> <a href="#">Add to Cart</a>
08-44-25-P3-03501.0070	2008	GONZALEZ ELISEO 1126 MARSH AVE	TXDISS	<a href="#">Details</a>
08-44-25-P3-03501.0070	2007	GONZALEZ ELISEO 1126 MARSH AVE	TXDISS	<a href="#">Details</a>
08-44-25-P3-03501.0070	2006	GONZALEZ ELISEO 1126 MARSH AVE	TXDISS	<a href="#">Details</a>
08-44-25-P3-03501.0070	2005	GONZALEZ ELISEO 1126 MARSH AVE	REDEEM	<a href="#">Details</a>
08-44-25-P3-03501.0070	2004	GONZALEZ ELISEO + 1126 MARSH AVE	PAID	<a href="#">Details</a>

Note: At the time of the live seminar the status was 'TDA', meaning there had been a tax deed application. However, as the property sold at auction, the status is changed to 'TXDISS' which stands for Tax Deed Issued.

In Lee County, the property taxes are levied in arrears. As such, the numbering becomes a bit confusing because a tax lien (called a certificate) issued for the 2006 tax year starts with 07 (that is, 2006 taxes being delinquent were auctioned in May 2007, hence an 07 certificate number).

Anyway, notice how for the 2005 tax year the status was 'redeem'. This means that a tax lien was issued but was subsequently repaid by the owner.

### Further notes (cont'd)

However, the 2006 property taxes were not paid in time and the tax lien became a tax deed. Clicking on the details page and drilling down to the tax certificate holder revealed the following:

Certificate Information		
<b>Certificate</b>	<b>Account</b>	
07-041363	08-44-25-P3-03501.0070	
<b>Status</b>	<b>Tax Year</b>	
TXDISS	2006	
<b>Certificate Holder</b>		
Tarpon Iv Llc PO Box 100736 Atlanta, GA 30384 0736 US		
<b>Sale Date</b>	<b>Interest</b>	<b>Face Value</b>
5/31/2007	0.25%	\$1,676.28

The 2006 property taxes of \$1,676,28 were paid by Tarpon IV LLC who bid 0.25% interest. Their minimum return is nonetheless 5% (in total, not per annum).

Certificate Information		
<b>Certificate</b>	<b>Account</b>	
08-055963	08-44-25-P3-03501.0070	
<b>Status</b>	<b>Tax Year</b>	
TXDISS	2007	
<b>Certificate Holder</b>		
Mtag Cust For c/o Bank of America PO Box 281856 Atlanta, GA 30384 US		
<b>Sale Date</b>	<b>Interest</b>	<b>Face Value</b>
5/30/2008	17.50%	\$1,801.84

The 2007 property taxes of \$1,801.84 were paid by Bank of America who bid 17.50% interest.

Therefore, in order to foreclose on the tax lien, Tarpon IV LLC would have had to 'redeem' the Bank of America's tax lien by paying the \$1,801.84, plus interest of 17.5% per annum pro rata from 30 May 2008 to the date they lodged foreclosure (with minimum interest of 5%).

Do you want to know what sort of property this was? Well, you can start to build a story by visiting the property appraiser's website and doing a search based on the account number (which is the strap number). That's what I did and the screen over the page came up.

## Further notes (cont'd)

Lee County Property Appraiser Tax Year 2010

Next Lower Parcel Number Next Higher Parcel Number Tax Estimator Tax Bills Print

### Property Data for Parcel 08-44-25-P3-03501.0070

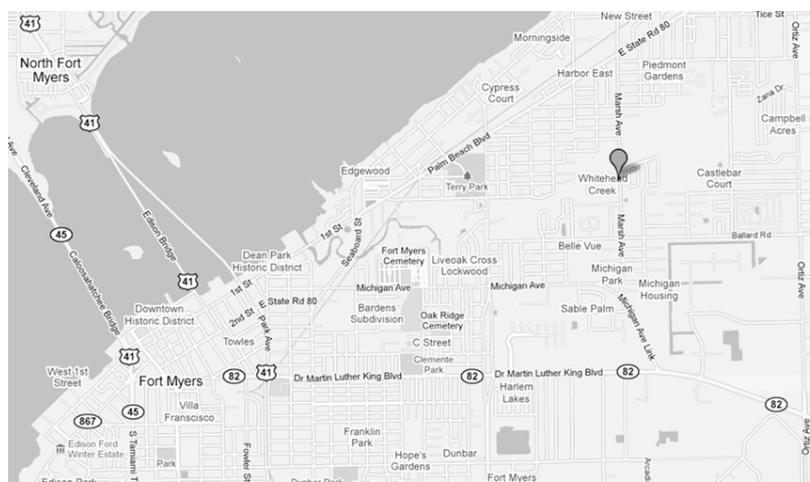
<b>Owner Of Record</b> GONZALEZ ELISEO 1126 MARSH AVE FORT MYERS FL 33905	[ Viewer ] Tax Map [ Print ]	<b>Image of Structure</b>
<b>Site Address</b> 1126 MARSH AVE FORT MYERS FL 33905		
<b>Legal Description</b> PARK HAVEN UNIT 1 BLK 1 FB 12 PG 100 N 61.5 FT OF LOT 7		
<b>Classification / DOR Code</b> SINGLE FAMILY RESIDENTIAL / 01		
[ Pictometry Aerial Viewer ] <span style="float: right;">Photo Date December of 2004</span>		

Property Values (2010 Tax Roll)		Exemptions		Attributes	
<b>Just</b>	16,116	<b>Homestead</b>	0	<b>Land Units of Measure</b>	UT
<b>Assessed</b>	15,950	<b>Additional Homestead</b>	0	<b>Total Number of Land Units</b>	1.00
<b>Portability Applied</b>	0	<b>Widow</b>	0	<b>Frontage</b>	62
<b>Assessed SOH</b>	15,950	<b>Widower</b>	0	<b>Depth</b>	113
<b>Taxable</b>	15,950	<b>Disability</b>	0	<b>Total Number of Buildings</b>	1
<b>Building</b>	10,060	<b>Wholly</b>	0	<b>Total Bedrooms</b>	2
<b>Building Features</b>	Incl. in bldg value	<b>Senior</b>	0	<b>Total Bathrooms</b>	1.0
<b>Land</b>	6,056	<b>Agriculture</b>	0	<b>Total Buildings Sq Ft</b>	1,297
<b>Land Features</b>	Incl. in land value			<b>1st Year Building on Tax Roll</b>	1965
<b>SOH Difference</b>	0			<b>Historic District</b>	No

Sure, it's no mansion, but it seems a solid enough two-bedroom, one-bathroom home that (as shown below) sold in March 2004 for \$80,000.

Sales / Transactions					
Sale Price	Date	OR Number	Type	Description	Vacant/Improved
937,500.00	05/25/2006	<u>2006000218331</u>	06	<b>Sales qualified and included for sales ratio analysis</b> Qualified (Fair Market Value / Arms Length / One STRAP #)	I
40,000.00	06/10/1999	<u>3132/244</u>	01	<b>Sales disqualified as a result of examination of the deed</b> Disqualified (Doc Stamp .70 / SP less th \$100 / Other Disq)	V
0.00	12/01/1983	<u>1702/4268</u>	07	<b>Not Classified</b> No Longer Used (was Disqualified - Mail Order Sales)	V
15,400.00	12/01/1979	<u>1401/2088</u>	02	<b>Sales qualified but excluded from sales ratio analysis</b> Qualified (Multiple STRAP # / 06-097)	V

The area isn't great (look at the map below), but it would still be rentable (collecting it might be a different matter!).



### Further notes (cont'd)

Again, at the time of the live seminar the auction had not yet happened. However, it has now and so we can check the result by searching the auction website.

<u>Auction</u>				
Bidder ID	Bid Info	Bid	Date/Time	
	Opening Bid	\$8,405.89	12/14/2010 10:00:00 AM	
6415	Auto Bid	\$10,300.00	12/14/2010 07:29:08 AM	
7126		\$10,500.00	12/14/2010 10:01:07 AM	
6415	Auto Bid	\$10,600.00	12/14/2010 07:29:08 AM	
7126	winning bid	\$10,900.00	12/14/2010 10:01:34 AM	
	<b>Auction Closed</b>		12/14/2010 10:03:00:00 AM	

The final bid was made by 3rd party bidder : 7126  
In the total amount of: \$10,900.00

It seems that two parties were interested in buying the property – Bidder 6415 and Bidder 7126. Remembering that the property was appraised for \$16,116, Bidder 7126 ended up buying this at a 32% discount against appraised value.

Was this a good deal? Based on first glance, yes. However, we don't know the condition of the property or whether there were code violations and associated fines that had to be paid.

It's not a good idea to buy property at foreclosure auctions without doing a lot of due diligence – much of which requires you to be on the ground so you can drive by and inspect the dwelling. You also need to carefully check the property's title.

If you want to buy property with the safety of an inspection after you have agreed on the price – stick to properties advertised on the MLS and make your offer via a realtor with the appropriately worded inspection clause.

### Your notes

# Bank Direct

## Three things you need:

1. Capital
2. Volume
3. Relationship



TIMING: DVD ..... Approx. time .....

### Further notes

A final option for buying property, although extremely difficult to access, is to buy a portfolio of properties en masse from a financier by negotiating directly with them.

I have heard of investors who have done this, but it is an opportunity that is really only possible for those who have:

- Enough capital to buy a large portfolio of properties, and can therefore negotiate a bulk discount. I imagine that the scale we are talking about might be several million dollars and a hundred plus houses.
- Systems to handle the volume of properties acquired. When you buy that many houses you need systems to manage the rehab, rental and eventual on-sale. This is not something that an investor from Australia can easily establish or maintain from afar.
- Most of all, you need a relationship with a financier who is willing to do a deal. This is the hardest part, because meeting and networking with the movers and shakers that can make this happen may be difficult. Still, the opportunity is there if you want to work hard to unearth it.

# About Foreclosures

- Debt wiped out
- Title not 'insured'
- Code violations remain
- Other liens remain on mortgage foreclosures

TIMING: DVD ..... Approx. time .....

## Further notes

When you buy a property at a foreclosure auction, although the mortgage(s) have been eliminated, you may not necessarily be buying a 'free and clear' (i.e. unencumbered) title.

For example, when you buy a mortgage foreclosure, any unpaid property liens and taxes remain and become your responsibility to repay (or else you may find the property is foreclosed and sold as a tax deed). Furthermore, although the mortgage will be cancelled, other liens (such as a mechanic's lien) may still be attached to the property.

In all cases, outstanding code violations (which can attract fines) will need to be corrected. Sometimes the county will reduce the fine for the new owner, but don't assume it.

These examples demonstrate that if you are planning to buy foreclosed property, you must do a title search, as well as checking to see if there are any outstanding code violations as part of your due diligence process. The way you do this will vary from county to county, but don't let this minor logistical difficulty prevent you from trying.

## Your notes

# FSBO

- Larger in the States than here
- Lower commissions
- Largely 'web based' sales
- Can still use MLS
  - Fee still paid to the buyer's agent

TIMING: DVD ..... Approx. time .....

## Further notes

The final sales category to examine in more detail is the For Sale By Owner (FSBO) network.

Although FSBO exists in Australia, it has not built up the same momentum and scale as in the U.S.A. I make this point because a vendor in Australia who uses FSBO may be seen desperate and quite 'alternative'. The same stigma doesn't exist in the U.S.

FSBO is attractive because it allows vendors to sell at much lower costs, principally because they are not paying realtors to market and show their homes; they do it themselves.

There are a variety of websites that are used by FSBO vendors. They can also list on the MLS, but if the buyer uses a realtor, then the vendor will have to pay a commission to that realtor for bringing the buyer to the table.

It stands to reason that you might be able to negotiate more favourable terms with a vendor direct, but remember that a vendor who uses FSBO is probably very cost-conscious and as such may not be in a position to offer a significant discount.

I don't believe it is smart for Australians to sell via FSBO. Instead, a local realtor should be used. This will cost more but the sale transaction will be smoother given your time and distance constraints.

# Due Diligence

- Identifying and then testing the key assumptions
  1. Property
  2. Numbers
  3. Strategy
  4. Tenant



TIMING: DVD ..... Approx. time .....

## Further notes

Having decided how to buy a property, the next step is to evaluate it by completing a due diligence review. Many investors are put off by the term 'due diligence', but all it really means is doing your homework.

In real estate, it's what's not obvious that ends up costing the most money. And since vendors and realtors are experts at showing you what they want you to see, and steering you away from what they want to keep less obvious, you need to be thorough and systematic in the way you approach your property purchase homework.

Do you know the most dangerous thing an investor has to overcome with his or her investing? Something that will sink your profits faster than a lead balloon? It's a wrong assumption.

Investing is really a series of assertions – statements or declarations about the investment. For example, when you buy a property you make assertions about:

- The condition of the property
- The purchase price (or how much you will pay for it)
- Closing costs
- Financing options and costs
- Rent you expect to receive

### Further notes (cont'd)

- The quality of the tenant
- Expenses you think you will have to pay
- Expected cash flow and capital gains returns
- How you will manage the property, etc.
- That you will be able to sell the property on acceptable price and terms.

Where investors go wrong is that they make an assumption about the outcome of an assertion (and usually hope for the best-case scenario) rather than testing it and forming an opinion based on the results.

A good due diligence process breaks up the potential investment into the key assertions in four areas: the property, the numbers, the strategy and the tenant.

Whatever you do, don't just buy a property on the internet or assume that the price is indicative of quality. You (or your team) must inspect the property if you plan on buying it.

### Your notes



# Property

## 1. Title

- Caveats
- Liens
- Boundaries
- Code violations

TIMING: DVD ..... Approx. time .....

### Further notes

The first property assertion pertains to the quality of the title. Many just assume it is good (meaning that it is free and clear of any encumbrances), but you should investigate to make sure.

Buying a warranty deed ensures that mortgages and liens are cleared, but you may still want to check for code violations. Counties have various 'codes' that relate to maintenance, upkeep and conduct in urban areas. If you break these, you will be slapped with a code violation.

Code violations may be issued for minor issues – such as the grass being too long and rubbish piling up – or can be issued for major issues such as unsafe buildings. In this case the county may issue a demolition notice and demolish the house (at your cost).

Some code violations incur fines, and in some cases those fines are still payable even if a property is sold.

If you are buying a quit claim deed, then you definitely need to complete further due diligence on the title.

You should consider whether you need to have the property boundaries surveyed to ensure the fences are in the right position. In most cases you can pace this out or check with a tape measure and only pay for a surveyor if you think there is a problem.

# Property

## 2. Area

- Socio-economic
- Traffic
- Prices / Price Trend
- Nuances
- Elements (Flooding, Tornado etc)

TIMING: DVD ..... Approx. time .....

### Further notes

The second property assertion pertains to the quality of the area, and an incorrect assumption might be that it is a good location and hence the property will be easily rentable, and there will be capital appreciation over time.

Don't just assume this, gather evidence to support or refute the assertion, because the risk is you may pay too much for the property, find it difficult to rent, not get any appreciation, or have trouble when reselling.

Areas where you do your homework include:

- Demographics to see what sort of people live in that area
- The potential for traffic noise and convenience of road access
- Price history
- Nuances – which mean unusual things about that area, street or house
- Potential hazards such as damage from floods, tornados and snow.

Your notes

# Property

## 3. Dwelling

- Structural
- Pests
- Utilities
- Elements (Flooding, Tornado etc)

TIMING: DVD ..... Approx. time .....

### Further notes

The third element of property due diligence concerns the actual dwelling. The assertion is that the property is in 'as expected' condition. If you assume without testing and you're wrong, then you may spend many thousands of dollars in unexpected repairs.

If you are buying at foreclosure auction, although you (or your team) can do a drive-by, it's unlikely you'll be able to check inside the property, and this means you should assume the interior condition is poor.

This point is made because structural repairs – things like repairs to wet areas, the roof, the floors, the stumps and the fences – all tend to add more cost than perceived value and therefore lead to financial loss. For instance, how much extra rent or value do you think you get by fixing a broken air conditioner?

If you are buying a property from a realtor, make sure you include a clause that allows you to inspect the dwelling within a nominated number of days (7, 14, 28) of the offer being accepted. This way you have already agreed on the price and so you won't risk paying for an inspection on a property that someone else may buy from under your nose.

Aside from the dwelling itself, you need to think about potential pests (like termites and cockroaches), the connection of utilities (like town water, sewer and electricity), and how susceptible the property is to issues such as flooding, frost damage, heat and humidity. The dangerous assumption is simply that these things won't affect you, when in all likelihood, they might.

# Numbers

- Sales history
- Comparative prices
- Rent
- Expenses
- Finance

TIMING: DVD ..... Approx. time .....

## Further notes

The assertion that needs testing here is that your property has the capacity to deliver your expected profit outcome – both in type, amount and time. The assumption is that it will, and so your job is to identify and test the validity of the financial variables that combine to create the overall outcome. Doing a due diligence over the numbers doesn't need to be tricky or difficult. In fact, I suggest that you keep it simple by concentrating on the following:

- The sales history as a window to gauging the price paid by the vendor
  - o This is often available at the property appraiser's website.
- Comparative sales prices, to form an opinion on what other property in the area has sold for to determine a fair price to offer and likely capital appreciation
  - o Websites such as Zillow.com and Trulia.com can help.
- Determining a fair rent for the property
  - o Check with local rental managers, but a good guide is Rentometer.com.
- Identifying and quantifying the likely expenses
  - o Check with the tax collector for property taxes, utility companies for electricity and water, rental companies for management fees, insurance companies for insurance costs, etc.

### Further notes (cont'd)

- How you plan to finance the property
  - Calculate the total purchase cost and determine how you will finance the acquisition.

Since many investors struggle with the numbers, let's try and build your confidence by completing a case study that uses a simple pro forma financial analysis template (see page 221).

The property selected was available for sale and identified through a MLS search at Realtor.com.

### Your notes



### Further notes (cont'd)

The assumptions we are trying to clarify are: how much operating cash flow (i.e. annual rent less annual expenses) will this property return per annum? And what are the gross and net returns for the first year, assuming we pay cash? Try to calculate this using the template on the next page.

Further instructions about how to fill in the template are provided on the DVD, as is the solution.

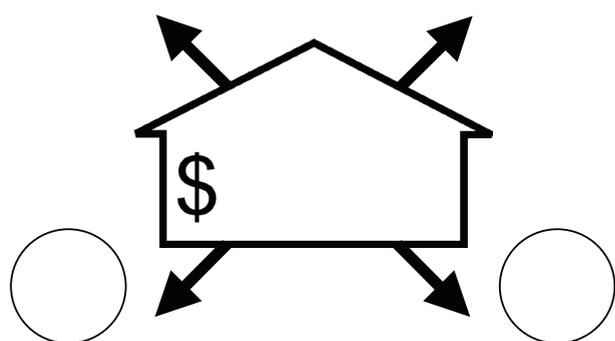
### Your notes

# QUICK CALC SHEET

Address: \_\_\_\_\_  
Date: \_\_\_\_\_

Monthly Rent \$ \_\_\_\_\_  
× 12  
Cash In \$ \_\_\_\_\_

\$ _____	Finance
\$ _____	Property Taxes
\$ _____	Management
\$ _____	Insurance
\$ _____	Maintenance
\$ _____	Utilities
\$ _____	Other
\$ _____	Cash Out



Deposit	\$ _____	\$ _____	Loan PI / IO
Closing Costs	\$ _____	\$ _____	LOC/Redraw
Initial Repairs	\$ _____	Term _____ %	Start / End
Cash	\$ _____	PMT\$ _____	per _____

Cash In	÷	Purchase Price	=	Gross Return	%
- Cash Out					
= Cash Flow	÷	Cash Req.	=	CoCR	%



# Question

- Are you better off:
  - Paying more and getting a lower return but with less management issues
  - Paying less and getting a higher return but with more management issues

TIMING: DVD ..... Approx. time .....

## Further notes

Having completed the template, an interesting question arises about financial returns and profitability that requires further consideration.

Although it's tempting to buy properties priced at \$15,000, these invariably come with additional management issues, because they attract tenants who can only afford to live in those houses and areas.

While these problems can be overcome, if you're an inexperienced investor or if you're someone who likes fewer hassles, then you may be better off accepting a lower return by purchasing more expensive property in better areas, but in doing so, attracting better quality tenants who should result in fewer management headaches.

## Your notes

Would you prefer to buy cheaper properties with more tenant headaches but potentially better returns, or better properties with less tenant headaches but with lower returns? Why?

# Strategy

- Feasible
- Budget
  - Time
  - Money
- Availability of trades

TIMING: DVD ..... Approx. time .....

## Further notes

Due diligence requires that you determine whether your chosen investing strategy is:

- **Feasible**  
Your strategy may seem workable on paper, but how practical is it in reality given your time, money and skill constraints? Remember – it's easy to buy property, but how successful it will be in terms of financial outcomes and ownership headaches is largely determined by how you manage the property and your team.
- **Within budget**  
If you plan to add value to the property by rehabbing, subdividing or developing, do you have the time and money to facilitate this outcome – or is it just a good idea that should work?
- **Doable with your talent pool**  
Don't just assume you will find people to do the work you can't. The right time to find a rental manager, lawyer, accountant, plumber, etc. – and to agree on a rate to pay them for their time and skill – is before you've bought, not after.

Your notes

# Tenant

- Rents
  - Amount
  - Payment History
- Vacancy
- Legals

TIMING: DVD ..... Approx. time .....

## Further notes

Do you know the difference between a tenant and a squatter? Well, both live in your property, yet only one pays to do so. The investing assertion to test surrounds the intended use of your investment, and the quality of the person who will live in it.

The last thing you want is to buy a property with a tenant who is really a squatter. The only way to know for sure is to do your due diligence over the person who is living (or will live) in your investment.

Just as you wouldn't give the keys to a \$40,000 car to anyone who asked for a ride, so too you shouldn't just rent a property to anyone who seems interested in being your tenant. An investing principle that I've learned the hard way is that you are better off with no tenants than bad tenants!

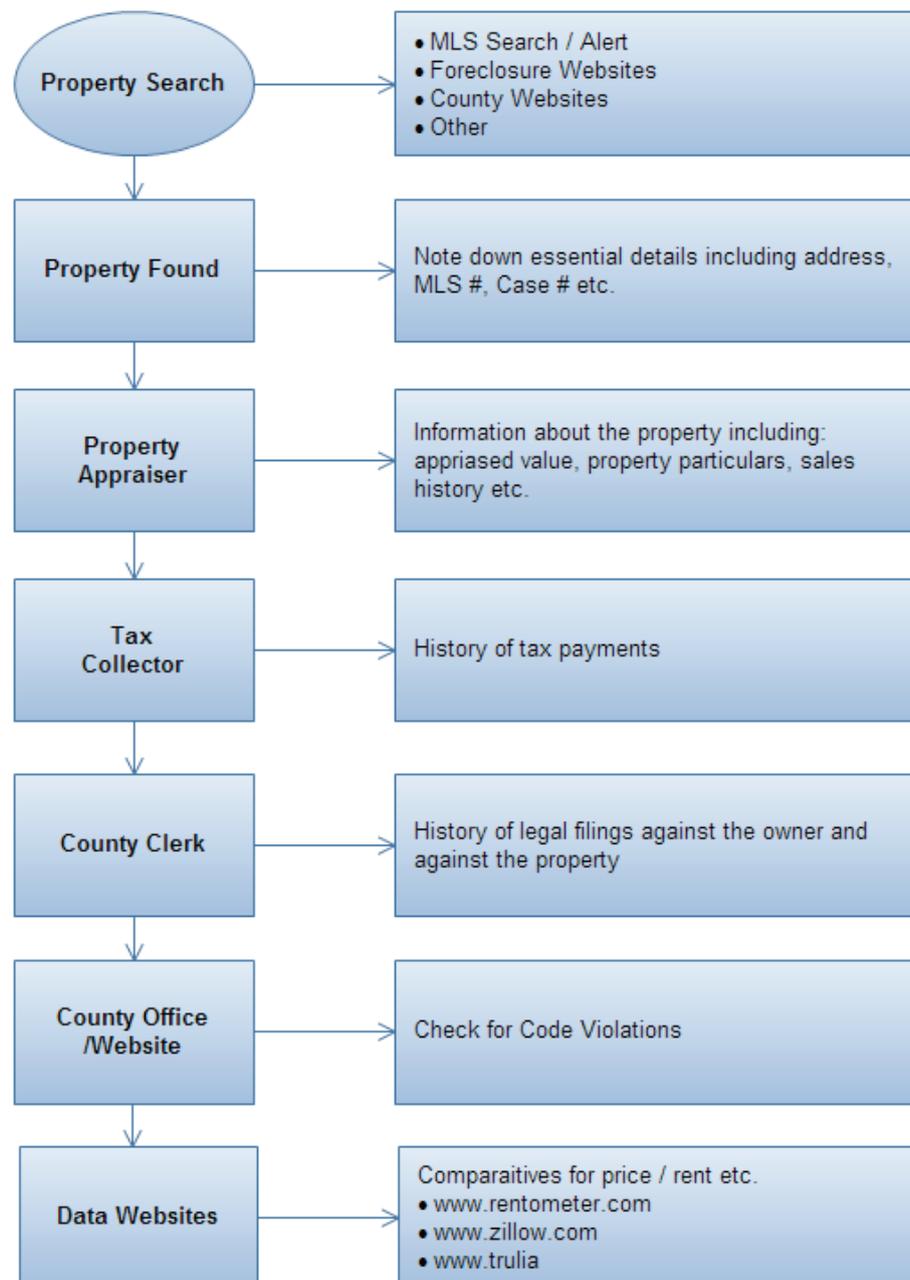
Due diligence over an existing or potential tenant need not be difficult. Just ask to see supporting documentation that confirms:

- The rent that should be paid
  - o How much, how often and when was it last reviewed
- That the rent is being paid
  - o How much, how often, and by what method (cash, check, etc.)?

### Further notes (cont'd)

- The bond
  - How much and who it was paid to
- The lease
  - That one exists and has been signed and that the lease terms are acceptable. Also check the length the tenancy has to go and determine if there is a condition report, or if not, if the lease spells out what needs to be done.

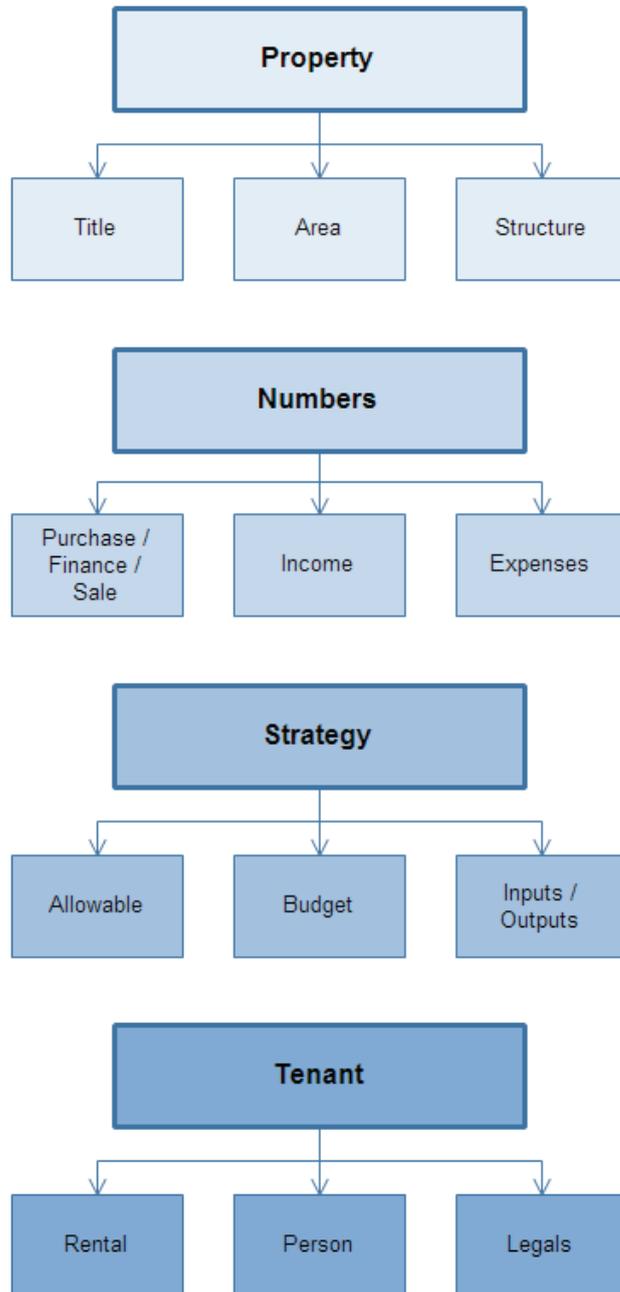
To assist you further, here's a flow chart that explains the sources of information I use when I do my due diligence on potential U.S. properties. It is not a complete list, but it includes the important points.



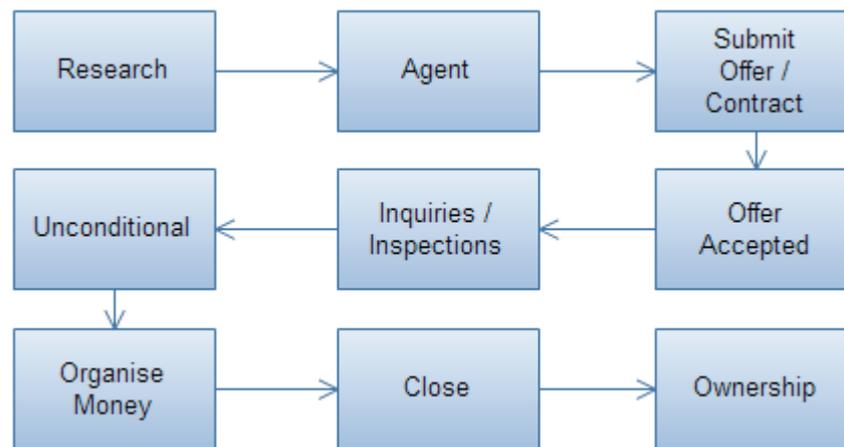
### Further notes (cont'd)

This flow chart is a quick summary of the four due diligence aspects that ought to be completed on any U.S. property you are considering buying.

I suggest you copy this page of the book and use it as a template that you tick off to demonstrate that you have considered and completed the required due diligence analysis for each of the four areas: property, numbers, strategy and tenant.



## Further notes (cont'd)



A lot of information has been provided, and it's easy to feel bogged down in the details. Therefore, let's pull back for a moment and recap the nine steps that take place from finding a property to becoming the owner.

### 1. Research

Create a profile for your ideal property investment, and then search websites in order to find it.

### 2. Agent

Either you or your realtor contacting the sales agent – which could be another realtor or perhaps the vendor in a FSBO sale, or else registering for the foreclosure auction.

### 3. Submitting your offer

Submitting your offer to buy the property, which will usually include signing a contract or else making a bid at foreclosure auction.

### 4. Acceptance

Your offer is accepted and the contract is counter-signed, or else you are the winning auction bid.

### 5. Inquiries/inspections

Unless you buy at auction (when your inquiries and inspections should have already been completed), it's now time to satisfy any conditions you added to the contract. Examples include: finance, inspection, pest reports, soil tests and review of lease documentation. It's normal to have 7 or 14 days to complete this.

### 6. Unconditional

If everything is acceptable, you advise your realtor that you are happy to go unconditional.

### 7. Organise money

In the lead-up to closing, you must organise your finances so that there are enough cleared funds to pay for your purchase. If you are buying at auction, you will usually have to pay within 24 hours (or less) of winning, and this therefore requires some advance money-management.

## Further notes (cont'd)

### 8. Closing

At the nominated time, payment is finalised, the paperwork completed and lodged as necessary, and the property 'closes'.

### 9. Ownership

Since you are now the title holder of the property deed, you are now the new owner. Congratulations! If the title and property are not already insured, you should get that done as soon as possible.

For your convenience, and so you can become familiar with the documentation, a contract I used to buy one of my investment properties in Florida is included in the appendix.

Also included is a HUD1 – a document that outlines how the money you pay will be distributed at closing. In Australia, this would be called a settlement statement.

## Your notes

# Planning To Buy?

- 2+ Trips A Year
- 2+ Weeks A Time
- A-B-M-S Systems
- **Communication From Afar**



TIMING: DVD ..... Approx. time .....

## Further notes

If you're planning on buying U.S. tax liens, with relatively little effort you'll be able to get up to 18% returns without setting foot in the U.S. All you need is your U.S. tax ID, a U.S. presence for your mail, and a U.S. bank account into which you can deposit your redemption checks. You will also need a U.S. accountant to help you file a U.S. tax return.

However, if you're planning to buy direct property, then you should expect to make at least two trips over a year, and for at least two weeks (or more) at a time. You need to do this in order to build and maintain your team on the ground, and to be able to become and remain an area expert. This is the required minimum 'self-investment' cost. Don't try and cheat on paying the cost or your financial investments will suffer. When you're not in the U.S., you will have to work hard to manage the Analyse, Buy, Manage and Sell phases of your investment. Sometimes this will mean looking for deals (the fun job), but for the main part it will require you to manage your team (the less fun job).

In many ways, you are like NASA mission control. The rocket is your investment portfolio. The astronauts are your team members. I'm told that a rocket is only on target about 1% of the time. The other 99% of the time it requires correction, and usually from mission control because they have the big picture at hand. Don't try to do the job of the rocket or the astronauts. You're mission control – calling the shots and making the 1% adjustments to keep everything on track. Good and open communication will be critical to your management success, so be sure to look for ways to receive and give feedback. The last thing you want is for your investment rocket to crash because the astronauts stopped talking to mission control or vice versa.

# USA Property Investing

## Tommy's US MasterMind



TIMING: DVD ..... Approx. time .....

### Further notes

At this point in the live training, Tommy Senatore provided an outline of what's included at his live training MasterMind training. Those attending spend nearly a week on the ground with Tommy in Fort Myers looking at tax liens and direct property investments (including MLS sales, foreclosures and short sales).

Attending Tommy's training would be a great idea if you are thinking about direct property investing. It is not needed if you only plan to buy tax liens.

At the time of writing, Tommy runs four MasterMind trainings a year, and numbers are capped at 10 participants (plus partners).

Aside from the personal tuition, one of the features of the training are the field trips, where Tommy shows you through his portfolio of properties as well as looking at properties that are for sale. Students can even nominate properties they are interested in buying for live case studies.

Students have paid as much as \$15,000 each to attend Tommy's training. However, for owners of this course, Tommy has offered a generous discount that will allow you to attend for significantly less!

A short video containing the testimonials of Australian investors who have done Tommy's course is included on the DVD. For further information, read the brochure that was included with the product or visit [www.taxlienanddeed.com/mastermind](http://www.taxlienanddeed.com/mastermind).

# USA Property Investing

## Day 1 Debrief



TIMING: DVD ..... Approx. time .....

### Further notes

If you've made it this far, then well done! We've covered a lot of territory and I'd be surprised if you didn't find some of it quite heavy going.

No doubt you have questions, but hold on to them, because there was a substantial Q&A session towards the end of Day 2 that participants said was very beneficial.

The theme for the second day was slightly different because, aside from the presentation on U.S. accounting, there were more practical sessions – including a special guest who presented on mobile home parks, and also a session by a young Australian who has moved over to the U.S. to become a full-time property investor.

### Your notes



# My Goal

## How To Create & Maintain A USA Property Portfolio That Delivers Impressive Positive Cash Flow Returns

TIMING: DVD ..... Approx. time .....

### Further notes

My goal at the start of this product was to show you how to create and maintain a U.S. property portfolio that delivers impressive positive cash flow returns.

After covering:

- The risks and rewards of overseas investing
- The six steps to setting up your U.S. empire
- How to manage your capital
- How to invest in tax liens, and
- How to invest in direct property

...I hope you feel this goal has been accomplished.

Is there more you could learn? Yes, but then again, you never stop learning.

Nonetheless, I believe the information covered has been fairly comprehensive and has brought to your attention the important issues Australian investors need to know before investing in U.S. property.

# Session Conclusion

## Problem + Solution = Profit

Do you have what it takes to  
tackle and solve the problem?



TIMING: DVD ..... Approx. time .....

### Further notes

As long as people live in houses, you can make money from property investing. So in my opinion the best way to profit from real estate is to buy and solve housing problems.

To be successful, the sorts of problems you tackle must be determined by your available time, money and skill – otherwise you will become frustrated and, in all likelihood, will lose money.

If you're hoping to make impressive returns, then remember this: no one gets a full-time outcome from a part-time effort. This means that you must contribute the necessary effort to achieve the desired return. No one can consistently cheat and get positive long-term financial returns.

There is a world of opportunity waiting for someone to take it. When will it be your turn?

### Your notes

# Homework

1. Write down how USA investing fits into your investment plans

TIMING: DVD ..... Approx. time .....

## Further notes

Seminar participants were given three pieces of homework. I recommend you do these too before going on to DVDs 3 and 4, and the remainder of this workbook.

The first homework assignment was to write down how U.S.A. property investing fits within your broader investment plans.

## Your notes

# Homework

2. Go to [www.realtor.com](http://www.realtor.com) and find:

- 3 bedroom / 1 bathroom property
- US city of your choice
- Priced under \$30,000
- With a 20%+ net return

TIMING: DVD ..... Approx. time .....

## Further notes

The second homework assignment was to visit [www.realtor.com](http://www.realtor.com) and find a three-bedroom, one-bathroom property in the U.S. city of your choice that is priced under \$30,000 and provides a 20% net return.

To help you with the numbers, the financial assumptions are:

- \$1,000 per annum of property taxes
- \$1,000 per annum for insurance
- \$1,000 per annum for maintenance
- 10% of the rent collected for rental management.

## Your notes

# Homework

## 3. Read through

- Contract
- HUD1
- Tommy's Brochure

TIMING: DVD ..... Approx. time .....

### Further notes

The third and final homework assignment was to read through the sample contract to purchase property and the HUD1. Both of these can be found in the appendix.

I also encourage you to read through Tommy's brochure to familiarise yourself with what's included in his MasterMind training.

### Your notes

# USA Property Investing

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## Welcome – Day 2



TIMING: DVD ..... Approx. time .....

### Further notes

There is a massive difference between understanding investing theory and being able to apply it. The world is full of people who 'know things', yet are unable to find financially lucrative ways to apply their knowledge.

When it comes to investing, being an academic won't make you rich. Neither will doing nothing. Sooner or later you have to confront your fears, take action and do something.

Stu Silver was one of the guest speakers on Day 2, and in his excellent book *Mobile Home Wealth* he makes the following simple yet profound point: 'If you're not making offers, you're not making money.'

This revelation is a good place to begin these Day 2 workbook notes, and tying it to the principle that investors won't get rich by doing nothing, I recommend that you start making 'paper' offers. That is, start looking at properties and going through the various due diligence steps of working out how much you would be willing to pay (or bid) for the tax lien or dwelling.

If you are buying direct property, the way to do this is: 1) Start with your required return, 2) Input the variables to calculate the profit, 3) Calculate the purchase price using this formula:  $\text{Purchase Price} = \text{Net Income} \div \text{Required Profit \%}$ .

For example, if your minimum return was a net 15%, and your anticipated net cash flow was \$5,000, then your maximum purchase price would be \$33,333 ( $\$5,000 \div 0.15$ ).



### Further notes (cont'd)

Whether or not you formally submit the offer (bid) is up to you, but again, in the wise words of Stu Silver, 'If you're not making offers, you're not making money.'

### Your notes

When did you last make an offer to buy property? What does that tell you about your mindset?

Calculate the maximum purchase price, using the formula given on the previous page, of the following 10 examples.

Example	Maximum purchase price
Profit of \$10,000 and a required net return of 10%	\$
Profit of \$10,000 and a required net return of 15%	\$
Profit of \$15,000 and a required net return of 18%	\$
Profit of \$17,500 and a required net return of 20%	\$
Profit of \$5,000 and a required net return of 17%	\$
Profit of \$20,000 and a required net return of 16%	\$
Profit of \$100,000 and a required net return of 19%	\$
Profit of \$9,000 and a required net return of 8%	\$
Profit of \$6,400 and a required net return of 12%	\$
Profit of \$2,500 and a required net return of 20%	\$

# My Goal

To build your confidence  
and deliver greater clarity  
by adding a practical dimension  
to yesterday's theory

TIMING: DVD ..... Approx. time .....

## Further notes

My goal on Day 1 was to show you how Australian investors can earn impressive cash flow returns from investing in U.S. tax liens and U.S. property. Take a moment to browse back over this workbook and consider how much new information you have already absorbed. Do you feel like a more knowledgeable and sophisticated investor? I hope so.

With the investing theory largely behind us, my goal for Day 2 is to build your confidence and provide greater clarity by adding practical examples and illustrations.

This will be done through:

- Three hotseat sessions
- Looking at a 'live' case study and performing the due diligence on it as we determine our maximum offer price
- Having three guest speakers talk about their areas of expertise
- The expert panel answering 35 tricky questions.

Your notes

# USA Property Investing

## Session 6

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### Hotseats



TIMING: DVD ..... Approx. time .....

#### Further notes

This session contained three 10-minute one-on-one sessions (called hotseats) where the audience participant joined me on stage and we brainstormed issues they were facing, or would face when they started investing.

Audience members were selected so that the hotseats covered the topics of:

1. Tax lien investing
2. Direct property investing
3. Visiting the U.S.A.

Instead of focusing on the differences between you and the hotseat participant, I invite you to try to discover what you have in common. You might be surprised, because investors have more similarities in their goals and fears than they do differences.

#### Your notes

# Hot Seat #1

- In what ways are you similar to Zoltan?
- What new practical applications about tax lien investing did you pick up?
- Financial model illustration
- What did you learn from this hot seat?

TIMING: DVD ..... Approx. time .....

## Further notes

Zoltan was selected as he is an investor interested in buying U.S. tax liens.

One of the points made was the assumption that Zoltan would be able to reinvest the money he received from redeemed tax liens purchased at the annual auction into over the counter tax liens.

If that can be done, then great, but if not, Zoltan will either have to bring the money back to Australia (triggering a foreign exchange gain or loss), or else leave it in the U.S. as capital for future investments. In my case, as the tax liens I've bought redeem, I leave the money in my Wachovia bank account as source funds for future tax lien and direct property purchases.

Zoltan's hotseat also introduced the benefits of creating a financial model to track the potential cash flow from your redeemed tax liens. While you will need to estimate redemption rates, this is something you certainly set a budget for, and against which you can benchmark your actual results.

## Your notes

What did you learn from this hotseat? How has it helped you to understand tax liens in more detail? Will you try to build a basic financial model for your tax lien investing?

# Hot Seat #2

- In what ways are you similar to Peter?
- Building a housing profile
- Investing 'golf'

TIMING: DVD ..... Approx. time .....

## Further notes

We all have something in common with Peter: we have money invested in superannuation that could be a potential source of investing capital for our U.S. investing activities.

Peter was interested in buying direct property, and to assist him to gain focus, the concept of building a deal profile was examined. A 'deal profile' is a list of all the inclusions you would like in your ideal investment property.

A deal profile helps deliver clarity, because instead of wondering whether the thousands upon thousands of properties currently for sale in the MLS might make good investments, your focus narrows so you look for your ideal property. Having a deal profile will help you be more efficient when searching for deals, and can also assist realtors you work with to establish search parameters in the MLS so that you aren't bothered by deals which don't meet your criteria.

Finally, I drew an analogy between golf and investing to highlight the reality that setting your deal profile and immediately finding a deal that fits it perfectly is like trying to hit a hole in one off the tee. The better approach is to inch nearer and nearer the hole. This will happen as you do your due diligence, and as one deal you are looking at leads to another.

# Hot Seat #3

- In what ways are you similar to Brad?
- U.S. Trip Goals
- Comfortable – Uncomfortable Matrix
- Investing ‘dating’
- Risk management

TIMING: DVD ..... Approx. time .....

## Further notes

Brad, an investor who was soon to go to the States, occupied the last hotseat.

After identifying his goals for the trip, we ranked them on a matrix (a line) based on how comfortable or uncomfortable they were for him to complete. The reason for doing this was to see how ‘easy’ Brad was making his trip. When he gets over there, Brad will be smart to tackle his less comfortable tasks first, since the easy ones are likely to take care of themselves.

Do you leave the hardest tasks until last instead focusing on the easy ones? It’s hard to grow as an investor if you do. No one likes confronting their own weaknesses, but this is necessary to master the issues that hold you back.

Brad and I talked through how investing is sometimes like dating – looking, offers and marriage. Do you approach your investing with a casual mindset? How many investing ‘marriages’ do you end up closing? Brad’s hotseat ended with an explanation of investing risk, and how our minds often trick us into believing there is more to lose than is actually the case.

## Your notes

How has your investing suffered because you tend to focus on the things that you can do comfortably?

# USA Property Investing

## Session 7

---

### Tenancy, Management & Selling



TIMING: DVD ..... Approx. time .....

#### Further notes

If you think I'm concerned that many investors are romanced into an investing marriage without doing enough due diligence then you're right – that's exactly how I feel!

'She'll be right' is a classic Aussie saying, but adopting that approach to your U.S. investing will lead to nasty financial losses.

Applied education must lead to empowerment. This means that the quality of your investment decisions must increase as you apply what you learn. Put differently, fewer things can go wrong when you leave fewer things to chance.

In this session we examine how to approach the tenancy, management and selling of U.S. direct properties.

#### Your notes

# Leases

- Rental periods
- Bond
- Collection
- Who pays what?
- Disputes
- Eviction

TIMING: DVD ..... Approx. time .....

## Further notes

Unlike Australia, where tenancy is heavily regulated, things are far more relaxed – perhaps even basic – when it comes to renting properties in the U.S.

As in Australia, most residential leases run for 12 months and revert to month-to-month once the term of the core lease lapses. However, unlike Australia, the bond (which is usually first and last month's rent), is paid to, and kept by, the landlord and only returned if the tenant leaves the property in good condition as defined in the lease. If the landlord goes broke, as has happened a lot after the GFC, then the tenant probably won't be able to recover their bond.

In Australia, state governments publish standard lease wording and provide sample leases. This isn't the case in the U.S., where it is up to the landlord (or the rental manager) to prepare the lease.

There is no tenancy tribunal to enforce the lease. Instead, disputes end up in the courts, and this adds to the cost and delays getting a resolution.

With a less regulated system, tenants' rights are less enshrined. In fact, in Florida, if a tenant stops paying you can give them three days' notice to pay up or move out. That doesn't happen in Australia!

The lease often stipulates what a tenant must pay for upon leaving the property. Items like painting, cleaning and rubbish removal are usually standard.

### Further notes (cont'd)

Finally, rental collection is less evolved than in Australia. Tenants pay by check (a personal check may or may not be allowed by the landlord), money order, or cash. Direct debit does not exist in the U.S. like it does in Australia.

A sample lease as used by a rental manager in Florida is included in the appendix.

### Your notes

# Management

- Letting Fees
- Management Fees
- Repairs
- Other services

TIMING: DVD ..... Approx. time .....

## Further notes

Given the fractured nature of the rental market, if you're planning on buying U.S. property then I highly recommend using a rental manager to collect the rent and look after your investment.

U.S. rental managers certainly exist, but not every realtor has a rental management arm to their agency. How to approach locating a good rental manager has been covered earlier in this product.

U.S. rental managers usually charge 10% of the rent collected, as well as the first month's rent as their letting fee. Of course, this is negotiable. Depending on the manager, you may be charged a loading over and above the cost of any repairs that they organise to the property, to cover their time and effort in ringing tradespeople and overseeing the work. Again, 10% seems to be the figure.

A recommended resource for those who want to read up on U.S. landlording is:

Rhodes, Trevor. *American Landlord: Everything U Need to Know... about Property Management*. 384 pages. McGraw-Hill, January, 2008. ISBN 0-07-154517-4.

You can buy this on Amazon.com.

Another recommended resource is MrLandlord.com. Jeffrey Taylor is a guru of rental management and you may benefit from buying some of his courses and products.

# Selling

- **Methods**
- **Costs**
- **Process**

TIMING: DVD ..... Approx. time .....

## Further notes

Property is not an investment nest egg that you buy and hold (i.e. sit on) forever. The smartest investors I know only hold their investments until they can make better returns elsewhere, with equal or less risk, in equal or less time. In fact, one of the hallmarks of a poor investor is that they hold on to loss-making assets for too long, because they cannot psychologically accept that they've made a mistake.

Logically then, if you buy U.S. investment property it's reasonable to say that one day you are going to want to sell it.

The first step in the sales process is to decide how you want to sell – through a realtor and the MLS, foreclosure (hopefully not!), or via the FSBO network.

Assuming you use a realtor (which I highly recommend), then there will be paperwork that needs to be signed to confirm the listing and potentially some minor expenses to pay.

Your realtor will show people though the property, and will be your agent when negotiating the sale. If all goes well, you will receive and accept an offer to your liking, at which point you will need to appoint a title company or attorney to prepare and lodge the sales-related paperwork. Your agent will be able to suggest someone.

Expect to pay an agent 6% of the sales price as a commission (although this is negotiable), stamp duty (yes – the seller has to pay stamp duty when selling), and fees to the title company for title insurance, disbursements, etc. If you allow 10% of the sales price to pay for sale-related expenses, then you should be in the ball park.

# Expert Panel

- Tommy Senatore
- Stu Silver
- Aran Dunlop

TIMING: DVD ..... Approx. time .....

## Further notes

Landlording is a bit like riding a bike – it's difficult to learn how to do it well from reading a manual.

As such, I invited Tommy Senatore, Stu Silver and Aran Dunlop to join me on the stage and share some of their experiences in regards to the highs and lows of tenancies and rental managers.

## Your notes

# USA Property Investing

## Session 8

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### Live Due Diligence Case Study



TIMING: DVD ..... Approx. time .....

#### Further notes

Following on from the earlier discussion about due diligence, Session 8 was included to provide time to perform a 'first glance' due diligence over a real-life deal.

As you watch the DVD, make notes about the steps I took, the questions I asked and the websites I visited. Also note the dialogue between the various presenters and pay attention to what we agreed on, and what we didn't.

#### Your notes

# Case Study 1

 **3022 Guava St** Fort Myers, FL 33916

 **\$15,000** **PRICE REDUCED**  
3 Bed, 1 Bath | 963 Sq Ft | 5,358 Sq Ft Lot  
Single Family Home

Brokered By: Century 21 Birchwood Internatl

This is a Short Sale subject to existing lender's approval which could result in dela... more

 **CENTURY 21**  
Birchwood International

[☆ Save Listing](#)

MLS: 201032579

TIMING: DVD ..... Approx. time .....

Your notes

# USA Property Investing

## Session 9

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### An Aussie Investor In The USA



TIMING: DVD ..... Approx. time .....

#### Further notes

Aran Dunlop is an Australian investor who left his career to pursue his U.S. investing ambitions.

His interest in U.S. investing took a dramatic turn after attending PropertyInvesting.com's 2009 annual three-day conference, where he heard one of the presenters talk about U.S. property investing. Later he undertook further study by attending a course run by Tommy Senatore in Australia in late 2009.

After that course, Aran signed up to attend Tommy's MasterMind training and from there he experimented with buying properties at tax deed auction. You'll see some of his early deals in a moment.

What I admire about Aran is that he did not let the reasons why he may not succeed prevent him from trying. He didn't know how, but he sought help. He didn't have time, but he made sacrifices to create it. He didn't have unlimited amounts of capital, so he is looking at low down deals.

As you watch and listen to Aran's story of how he's pursued his investing passion, I think you'll agree that it hasn't been easy, but he's finally found his feet and has an exciting future ahead. Can the same be said for you? If not, why not?

Since this is Aran's story, I haven't included additional notes. Instead there is extra room for you to write down your notes on the right-hand side of the page.

## Meet Aran Dunlop

PropertyInvesting.com  
Sharing Knowledge, Building Wealth

- Background
- Getting started
- Culture shock
- Borrowing Frustrations
- Deals

Your notes

## My First Deal

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



Bought	8/4/09
Paid	\$1,900
Sold	11/16/10
For	\$2,000

## Port Charlotte

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



- Appraised: \$8,841
- Bought for \$2,700
- Sold for \$5,600 on Ebay 2 weeks later
- **Never saw property**

## 1451 Heiman Ave.

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



- Appraised: \$47,830
- Purchased \$15,700
- Reno: \$20,000
- 1<sup>st</sup> rented: \$690 pcm
- Now vacant

Your notes

## Before & After

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



## Mobile Home

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



- Appraised: \$7,620
- Bought for \$2,400
- \$7,000 renos
  - \* less 6 mths rent free
- Rented to handyman for \$400 pcm

## Before

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



Your notes

## After

PropertyInvesting.com  
Sharing Knowledge, Building Wealth



### 8 Lot Mobile Home Park

Purchase Price	\$195,000
Deposit	\$0
Owner Finance	\$195,000

### Cash Flow

Rent	\$52,812
- Expenses	\$20,436
- Interest	\$14,862
= Cash Flow	\$17,514
CoCR	Kaboom!

## Aran's Latest Deal



## 7 Things I Wish I Knew

 PropertyInvesting.com  
Sharing Knowledge, Building Wealth

1. Traditional financing is virtually impossible to get as a foreigner in this market.

Your notes

## 7 Things I Wish I Knew

 PropertyInvesting.com  
Sharing Knowledge, Building Wealth

2. Land (generally) does not have anywhere near the scarcity value it does in Australia.

## 7 Things I Wish I Knew

 PropertyInvesting.com  
Sharing Knowledge, Building Wealth

3. Bad neighbourhoods tend not to gentrify, they tend to degenerate.

## 7 Things I Wish I Knew

 PropertyInvesting.com  
Sharing Knowledge, Building Wealth

4. Cashflow is awesome, but you will seriously work for it.

Your notes

## 7 Things I Wish I Knew

 PropertyInvesting.com  
Sharing Knowledge, Building Wealth

5. Rental housing is viewed as a consumable commodity - Tenants expect it to be brand new when they move in and will leave a mess when they leave.

## 7 Things I Wish I Knew

 PropertyInvesting.com  
Sharing Knowledge, Building Wealth

6. Everything is negotiable - Americans are very open to creative dealmaking, joint ventures etc.

## 7 Things I Wish I Knew

 **PropertyInvesting.com**  
Sharing Knowledge, Building Wealth

7. Flipping properties is a full time job  
and you have to really like it if you're  
going to stick with it - I didn't!

Your notes

# USA Property Investing

## Session 10

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Stu Silver

 **PropertyInvesting.com**  
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TIMING: DVD ..... Approx. time .....

### Further notes

To be honest, the first time I met Stu Silver I wasn't sure what to make of him. In fact, before I met him I had *talked* to him on the phone. Tommy had suggested I speak to his friend Stu, a 'guru' in foreclosures (and just about everything else, as I later found out), about some questions that I had.

Not knowing me from a bar of soap, Stu was generous with his time on the phone and explained just how hard it was to 'beat the foreclosure players', and just how much time and due diligence is needed if you want to play the foreclosure game. 'Okay,' I remember thinking, 'Here's a guy who tells it as it really is. That's refreshing.'

Stu, Tommy and I arranged to meet in person at Mr. Mees – a restaurant in Fort Myers that offers the strange combination of Japanese, Korean and Thai food. They also offered bottomless glasses of soft drink and iced tea – something many U.S. restaurants do and which explains why U.S. dentists are so wealthy. Stu's Hebrew name is Zalman Velvel, but he likes his friends to call him Zally.

Anyway, as our lunchtime conversation unfolded, it didn't take long for me to realise that what Tommy had said about Stu being the expert was completely true. Here was a guy who had a lot to offer. I shut up and listened.

Since that lunchtime meeting, I've come to know Stu as *Uncle Zally*. Aside from proving to be a property expert who has helped me tremendously, my warmly adopted Jewish uncle has a quick and sharp sense of humour.

Your notes

# Mobile Home Wealth M-O-B-I-L-E Investment System

**Stu Silver**  
**TheMobileHomeMan.com**  
**239-768-1234**

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1

## Who am I?

- **Stu Silver - conductor**
- **Since 1997 – 13 years- Licensed trainer**
- **Trained more than 5,000 investors live class and Internet – PROVEN SYSTEM**



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## Goals For Presentation

- **Why great time invest in USA**
- **Overcome fears of investing outside Australia**
- **Cover Basics Mobile Homes and Mobile Home Parks**
- **Show you how our training materials will work for you and be one of the best investments you can make – in yourself.**
- **Have good time!**



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## Why now in USA?

# 4

## Good Reasons



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Your notes

## Why now in USA?

### Reason #1 Prices are at all time lows!



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## Report from Ft Myers, Fl 1/1/06 – 1/1/11

	1/1/06	1/1/11	down
■ SF House CC	\$300K	75K	-225K
■ Duplex Lehigh	\$350K	60K	-290K
■ Warehouses	\$150/ft	40/ft	-110/ft
■ Land – lot Lehigh	50K	3K	-47K
■ Land – lot CC	\$100K	5K	-95K

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## Why now in USA?

### Reason #2

You can earn great cash flow returns while you are waiting for appreciation



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Your notes

## Report from Ft Myers, FL 1/1/06 – 1/1/11

	1/1/06	1/1/11	up
■ SF House CC	-3%	8%	11%
■ Duplex Lehigh	5%	10%	5%
■ Warehouses	6%	10%	4%
■ M/H Parks	6%	10%	4%

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## Why now in USA?

### Reason #3

Signal!  
Median price home vs median family income



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Your notes

## Report from Ft Myers, Fl 1/1/06 – 1/1/11

	<u>Median House</u>	<u>Fam Inc</u>	<u>Mtg (.28)</u>
1/1/2006	325K	50K	160K (7%)
1/1/2011	90K	50K	200K (5%)

**When the average family can not afford the average home, it is a warning sign. When they can afford it, it is a buy sign.**

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## Why now in USA?

**Reason #4  
Signal!  
Rental homes  
vs  
positive return**



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## Report from Ft Myers, Fl 1/1/06 – 1/1/11

	<u>1/1/06 cost \$ 1/1/11 +%</u>			
■ SF House CC	-3%	7%	8%	1%
■ Duplex Lehigh	5%	7%	10%	3%
■ Warehouses	6%	7%	10%	3%
■ M/H Parks	6%	7%	10%	3%
■ 1/3 homes owned by investors – when cost of borrowed \$ is greater than cap rate, a warning sign. When + cash flow, it is buy sign.				

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# Workshop Part 1

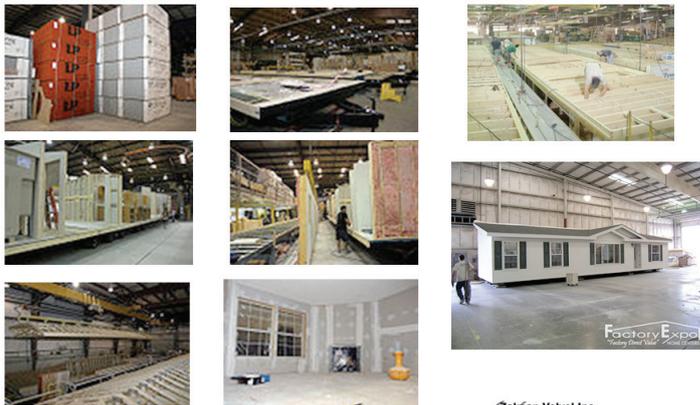
## The Basic Terms for Manufactured/ Mobile Homes



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Your notes

## FACTORY PICTURES



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## PICS OF MOBILES (HUD CODE)



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Your notes

## RV-PARK MODELS



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## MODULAR HOMES



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## MODULAR HOMES

### FEATURES

- Built state & local building codes
- On foundations or basements
- Delivered on flatbed trailer & lifted by crane onto foundation
- Real property you own the land
- 2-story floor plans, Duplex, Multi, Townhouse are available



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# Why Mobile Homes?

# 5

# Good Reasons



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Your notes

# Poll

**Show of Hands**  
How many of you like positive cash flow ?



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# Poll cont'd

**How many want enough cash flow to achieve financial independence – Say \$5,000 a month?**



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# Why Mobile Homes?

## Reason #1

**Mobile Homes  
have the Best  
Cash Flow of  
almost any Real  
Estate  
Investment**



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Your notes

## M/H KEEPER



- 4 BR bought from Bo the Bug man for \$25K
- Rented \$200/week - \$866/mo, 680/mo + cash
- \$8K/yr = 32% return

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## Quick Formula

**Just figure out how  
much cash you  
need each month,  
divide by \$700.**

**If you say  
\$5,000/month, you  
just need 7 mobile  
homes to achieve  
financial  
independence**



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# Poll cont'd

How many would like to have a **PROVEN** system to get them there, to avoid making mistakes?



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Your notes

## ADVISORY!

When you own Mobile Homes be Prepared for a whole new relationship with your mail box



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**SAY IT AGAIN  
M/H HAVE THE**



# HIGHEST CASH FLOW

**OF ALMOST ANY  
INVESTMENT !!**



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# Why Mobile Homes?

**Reason #2**  
**There is huge demand for Affordable Housing and M/H are the most affordable**



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Your notes

## Important Statistic about Demand



**There are 8 million Mobile Homes and 50,000 M/H Parks in U.S.**



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**At any one time 10% for sale -  
800,000 Mobile Homes / 5,000 Parks  
*Yet still below most investors' radar!*  
We'll come back to this.**



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**Now that We Know Each Other a Little Better**  
**A little more about your conductor's credentials**

- CCIM – PhD of Commercial R.E.
- Spent \$40,000
- Learned 3 things – calculator, NOI , & the 3 most important things when buying R.E. – What are they?
- No ... it's Jobs ... Jobs ... Jobs
- You owe me \$13,333
- Reg R.E. Appraiser – 14 yrs
- Worthwhile – important to know what property worth



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Your notes

**And ... a few more Credentials**

- Licensed Auctioneer since 1988 – more than 22 years
- Auctioned 500+ properties – met 1,000's investors - learned from them and pass that along now
- 28 Years Licensed R.E. Broker
- How many realtors here? Stand up



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**And ... perhaps the best credentials - Experience**

- Since '80, Full-time R.E. investor, 30 years
- Been in 3 recessions + 3 booms
- Look at me – how many people think I dye my hair?



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Your notes

## I walk the talk

- My family now has more than 650 rental units – houses, duplexes, warehouses, land, a motel and .....



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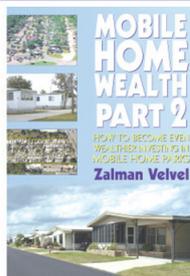
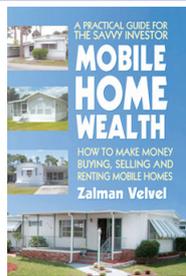
## Our Favorites

- Mobile homes and parks
- We own and operate 12 mobile home parks – some big – 178 units, 160 units, 90 units, and 64 units ...  
Some only 4 - 5 units
- Licensed Mobile Home Dealer



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## And I Wrote 2 Books on M/H investing



Wrote them as Zalman Velvel  
My pen name

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**If M/H's are so great, how did those cash cows do in The Crash?  
From 1/1/06 – 1/1/09**



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Your notes

**Report From Ground Zero Invest 100K Mobile Homes**

- \$40K-30K= **\$10K** loss
- Cash Flow = 6K + 6K + 4K = \$16K
- Bought 2 1/2 mobiles
- **25K** loss in principle
- 40K total cash flow
- Net \$40K - \$25K =
- **15K profit overall**



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**Summary Report from Ground Zero 1/1/06 – 1/1/09  
Assuming 100K to invest**

■ <b>Mobile homes:</b>	<b>+15K</b>
■ <b>SF Houses CC</b>	<b>-255K</b>
■ <b>Duplexes Lehigh</b>	<b>-235K</b>
■ <b>Warehouses</b>	<b>-198K</b>
■ <b>Land – lot CC</b>	<b>-93K</b>
■ <b>Stock Market</b>	<b>-36K</b>
■ <b>Money Market</b>	<b>+8K</b>

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## Why Mobile Homes?

**Reason #3**  
**Mobile Homes**  
**are safer in**  
**down turns**



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## Should You Buy Mobile Homes Now?

- **If you learn how to buy, you can earn 20% - 25% today with upside**
- **How many people here earning 20% - 25% with upside ?**



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## Why Mobile Homes?

**Reason # 4**  
**A great way to**  
**start investing,**  
**prices are lower,**  
**so it requires**  
**less cash to get**  
**started**



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Your notes

## Poll

**How many of  
you want  
quick cash –  
flipping cash  
Say 3K – 5K  
month?**



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## FLIPPER in BUCCANEER



- Foreclosure – paid \$2,500 - wanted piano
- Over 55, land lease community – 4 star
- Fixed it up, spent \$5,500
- Sold for \$15,000, found perfect buyer
- Made \$7,000 + Piano

## FORECLOSURE FLIPPER



- Paid \$8,000 on C/H steps - nobody else bid- THEY LAUGHED AT ME!
- Worst M/H ever - afraid to go inside, but on 3+ acres
- M/H burned down 2 days before closing - deducted \$2M to be nice - it was a benefit
- SOLD FOR \$55M - 2M - COST(8M) = \$45,000 !

**In 2007 I made  
\$170,000  
flipping  
Mobile Homes  
part time!**



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Your notes

## Why Mobile Homes?

**Reason # 5  
There is  
Less  
Competition**



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### Important Reminder



**There are 8 million Mobile Homes  
and 50,000 M/H Parks in U.S.**



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## Remember?

**At any one time 10% for sale -  
800,000 Mobile Homes / 5,000 Parks  
*Yet still below most investors' radar!*  
And I said I would come back to this**



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Your notes

**Many times, I am the only one bidding  
at Foreclosure and Tax Deed sales  
because so few investors  
understand mobile homes**



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**Is that a good thing – to have  
less investors competing for  
deals?**



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## EXAMPLE - 251 SAN DIEGO ST



- Bought @ Absolute Auction, lunch time, while training
- When class came back, saw me signing a contract
- Paid \$11,000 including land – 3 years ago, 50K +
- Came with tenant paying \$350 month, 25% return
- Nobody else bid!
- How many would like to buy something like that?

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Your notes

**In other words,  
Mobile Homes are  
A Ground Floor Opportunity!**



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**First ...  
Individual Mobile Homes  
or equivalent experience**



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## Then ... Mobile Home Parks



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Your notes

## Once You Understand the Cash Cow



It's OK to Lasso a Herd



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## Workshop Part 2

### The Basic Terms for Manufactured/ Mobile Home Parks



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## 3 Different Kinds of Parks

### FAMILY PARKS - ANY AGE ALLOWED



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## 3 Different Kinds of Parks

### OVER 55 RETIREMENT COMMUNITIES



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## 3 Different Kinds of Parks

### RV PARKS



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Your notes

Your notes

## **SMALL M/H PARK FLIPPER!**



- 3 M/H on 1 ½ acres, Breeze Dr
- Paid \$29,001 on C/H steps - nobody else bid
- Spent \$22K in fix up, earned 13K in rents
- SOLD FOR \$85M - COST(29K) – FIX UP(22K) – C/C and RE taxes(8K) + 13K rents = \$39,000 profit

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## **AN ACCIDENT- CALLED FROM M/U ON 1 CHEAP MOBILE - 5 FOR SALE IN PARK**



- SAID IF BUY 5, MIGHT AT WELL OWN PARK
- SELLER SAID PARK WAS FOR SALE
- CALLED MGR, THEN OWNER, TALKED
- WE BOUGHT THE PARK! N.M.D.

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## **RESULTS - CALOOSA MHP**



- BOUGHT NO MONEY DOWN - \$650,000
- INCREASE NOI + \$12,600/mo +\$151,200/yr
- AFTER 18 MOS, WE GOT \$10/K MONTH
- Increased 1.5 million in value
- How many would like that? 1 deal and become a millionaire?

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## 2 DIFFERENT WAYS TO COLLECT RENTS



- Park owned units you lease and maintain
- Land/Lease – you only maintain the utilities
- Park owned gives 2X rents L/L on average
- WHICH DO YOU THINK IS BETTER?

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## How to Overcome the 10,000 mile challenge?

**3**  
**Ways**



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## How to Overcome the 10,000 mile challenge?

**#1 Way**  
**Move to**  
**USA!**



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Your notes

## How to Overcome the 10,000 mile challenge?



# No Way, Mate!



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Your notes

## How to Overcome the 10,000 mile challenge?

# #2 Way

### Buy the right kind of Parks!



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## What are the right kind of parks?

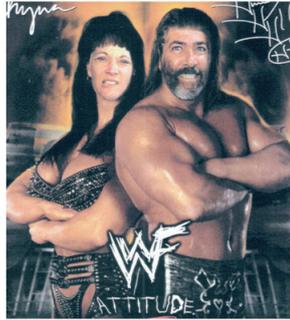
- 1- Cash Flow now
- 2- Land Lease
- 3- Good Manager



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## How to Overcome the 10,000 mile challenge?

**#3 Way**  
**Get a great team to help you in States**



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Your notes

## Workshop Part 3

**Why 2 separate Systems**



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## Mobile Home Wealth System Why 2 Separate Courses?

- Individual M/H's investment characteristics are like S/F homes
- M/H Park's investment characteristics are like commercial property



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## I wanted to train the right way Adding Strength to Strength



- **Walk, first  
Then, RUN!**



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Your notes

## M-O-B-I-L-E Wealth System SUMMARY

- **Training is M-O-B-I-L-E**
- **You can use it where  
the best deals are,  
what ever they are**
- **You can only win!**



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# REVIEW

## What did we cover in this presentation ?

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## NOW WHAT'S THE NEXT STEP ?



**INVEST IN YOURSELF  
GET QUALITY TRAINING &  
INFORMATION**

Your notes

## Remember ?

How many of you wanted  
a **PROVEN SYSTEM**  
where you can **SAFELY**  
add \$5,000 each month  
to your cash flow and be  
Financially Independent



And **SAFELY** add \$3 – 5K  
each month to your  
flipping profits?

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## Well, Here it Is! A Proven System

**5,000+ students  
30 Years Experience**

**Stu, go to back table**

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## The Heart of The System 6 SKILLS for M-O-B-I-L-E Model

- M- MINE** FOR **M/H** DEALS
- O- OFFER** FIGURE **O**FFER+STRATEGY
- B – BUY** WRITE CONTRACT TO **Buy**
- I- INSPECT** **I**NSPECT & **F**IND **P**ROBLEMS
- L- LOAN** ARRANGE **L**OAN FINANCING
- E- EARN** CLOSE & **E**ARN MONEY



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Your notes

## What you are GOING to LEARN

- 1- Make phone calls, find deals, create your M/H wealth farms- give you 14 places.



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### FSBO TELEPHONE SCRIPT

**WARM UP**  
Hello, I'm calling about the ad in the \_\_\_\_\_  
(Write phone number here) \_\_\_\_\_  
Is the mobile home on a rented lot, or do you own the land? RENT/OWN  
(If on rental lot) Could you tell me how much the monthly lot rent is? \_\_\_\_\_  
Is it in a park? Y/N (If yes) Could you tell me the name of the park? \_\_\_\_\_  
What is the address of where it is located? \_\_\_\_\_  
By the way, my name is \_\_\_\_\_ (If not, then ask) May I ask your name? \_\_\_\_\_  
Are you the owner of the home? Y/N (If not, ask) Who is the owner? \_\_\_\_\_

**INFORMATION SECTION**  
Now, I need a little information about the home - is it a single or doublewide? S/D  
Do you know the dimensions? (like 14 x 70) \_\_\_\_\_  
How many bedrooms and baths does it have? \_\_\_\_\_ bedrooms \_\_\_\_\_ baths  
When was it built? \_\_\_\_\_  
Does it come with appliances? Y/N Which ones? \_\_\_\_\_  
Does it come with furniture? Y/N What kind of furniture? \_\_\_\_\_  
What kind of condition is the home in? \_\_\_\_\_  
Is there anything that needs repair right now? \_\_\_\_\_

**GETTING DOWN TO BUSINESS**  
Now, how much are you asking for the home? \_\_\_\_\_  
How firm are you on this price? \_\_\_\_\_  
Do you have a mortgage? Y/N Total owed? \_\_\_\_\_ No payment: \_\_\_\_\_ Assumable? Y/N  
Would you be willing to hold any financing? \_\_\_\_\_  
Just out of curiosity, why are you selling? \_\_\_\_\_  
If I were to pay cash, and close fast, would you give me a better price? Y/N

**ONLY CONTINUE ON IF YOU ARE INTERESTED**  
Are you permitted to rent the home? Y/N How much would it rent for? \_\_\_\_\_  
Who pays for the water and sewer? \_\_\_\_\_ How much per mo? \_\_\_\_\_  
Who pays for electric? \_\_\_\_\_ How much per mo? \_\_\_\_\_  
Who pays for trash pickup? \_\_\_\_\_ How much per mo? \_\_\_\_\_  
How much is homeowner's insurance run per year? \_\_\_\_\_ Per mo? \_\_\_\_\_  
How much are the taxes and/or yearly premiums? \_\_\_\_\_ Per mo? \_\_\_\_\_  
Are there any other expenses? \_\_\_\_\_ Per mo? \_\_\_\_\_  
(Bring down lot rent from 3rd line on top, and put it here.) How much per mo: \_\_\_\_\_  
(Put in old mortgage payment or new payment using the Quick-Kick.) \_\_\_\_\_  
(Subtract all above expenses from rent to get net cash flow, if any: \_\_\_\_\_)

**IF VERY INTERESTED IN PROPERTY**  
I would like to come by and see the property at (Time and Day) \_\_\_\_\_  
Are you available to meet me there? Y/N If not, when? \_\_\_\_\_  
Could you give me directions? \_\_\_\_\_  
(If you were not talking to the owner) Can we have the owner there at that time? Y/N  
Do you have any other property you are interested in selling? \_\_\_\_\_  
Thank you, and goodbye.

**IF JUST MILDLY INTERESTED**  
I would like to drive by and view the property. Could you give me directions? \_\_\_\_\_  
Thank you, and goodbye.

OVERALL RATING: (1-10) \_\_\_\_\_ FLIPPER: \_\_\_\_\_ KEEPER: \_\_\_\_\_ L.O.: \_\_\_\_\_ LRP: \_\_\_\_\_

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# What you are GOING to LEARN

## 2 - Do appraisals

How can you make \$\$ unless you know what property is worth?



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Your notes

### Appraisal / Strategy Sheet - Individual Mobile Home

**DESCRIPTION OF MOBILE HOME**  
 Name Park (if in park): \_\_\_\_\_ Type Park (Family, 55+, RV): \_\_\_\_\_ Segment (Afford, Mid, High): \_\_\_\_\_  
 Address of Property: \_\_\_\_\_ City: \_\_\_\_\_ State: \_\_\_\_\_  
 How found listing: Internet, MLS, FSBO, Classified ad, Sign, etc: \_\_\_\_\_  
 Bedrooms / Baths: \_\_\_\_\_ / \_\_\_\_\_ Year Built: \_\_\_\_\_ Single/Double wide: \_\_\_\_\_ MH dim: \_\_\_\_\_ x \_\_\_\_\_  
 Overall condition and appearance: \_\_\_\_\_  
 What is included with mobile: \_\_\_\_\_  
 Lot Rent: \_\_\_\_\_ Own land Y/N: \_\_\_\_\_ Size Lot (if own): \_\_\_\_\_ Value lot: \_\_\_\_\_ Ten Allowed-LOC/N: \_\_\_\_\_  
 Listing Price: \_\_\_\_\_ Price You want to Offer: \_\_\_\_\_ **Price need to make deal:** \_\_\_\_\_  
 Any Creative Owner Financing: \_\_\_\_\_  
 What needs to be fixed: \_\_\_\_\_  
 How much \$ to repair, how long take, who do it: \_\_\_\_\_  
 Strategy - Flipper, Keeper, L/O, BB: \_\_\_\_\_ Price re-sell for, or rent for: \_\_\_\_\_

**COMPARABLE SALES**  
 Address \_\_\_\_\_ Price Sold For \_\_\_\_\_ Bot \_\_\_\_\_ Bath \_\_\_\_\_ Liv-Area \_\_\_\_\_ SDW \_\_\_\_\_ Size Lot \_\_\_\_\_ Year Built \_\_\_\_\_ Addition \_\_\_\_\_ Condition \_\_\_\_\_ DOM \_\_\_\_\_  
 1. Adjustments- (Adj Price) \_\_\_\_\_ Tot adj \_\_\_\_\_  
 2. Adjustments- (Adj Price) \_\_\_\_\_ Tot adj \_\_\_\_\_  
 3. Adjustments- (Adj Price) \_\_\_\_\_ Tot adj \_\_\_\_\_

**CURRENT LISTINGS COMPETING WITH IT:**  
 Address \_\_\_\_\_ Price Listed \_\_\_\_\_ Bot \_\_\_\_\_ Bath \_\_\_\_\_ Liv-Area \_\_\_\_\_ SDW \_\_\_\_\_ Size Lot \_\_\_\_\_ Year Built \_\_\_\_\_ Addition \_\_\_\_\_ Condition \_\_\_\_\_ DOM \_\_\_\_\_  
 1. Adjustments- (Adj Price) \_\_\_\_\_ Tot adj \_\_\_\_\_  
 2. Adjustments- (Adj Price) \_\_\_\_\_ Tot adj \_\_\_\_\_  
 3. Adjustments- (Adj Price) \_\_\_\_\_ Tot adj \_\_\_\_\_  
 How Many Total Competing Listings? \_\_\_\_\_ Avg Time on Market? \_\_\_\_\_

**PICTURES (Front, Inside, Neighbors)**  
**STRATEGY FORMULAS TO MAKE MONEY**  

<b>Flipper</b>	<b>Keeper</b>	<b>L/O</b>	<b>BUY</b>	<b>SELL</b>	<b>BB</b>
Final Market Val	Gross Month Ren	Option Price	My Good	My Good	Retail Price
Quick sale @	Mtg Pay	Length Time	<b>BUYER</b>	Down Pay	
Closing cost	Lot rent	Mo Rent	Arre Note	Mo pay	
Fix up cost	Tax/mo	Mo Credit	Int Rate	Length Loan	
Holding cost	Utilities	Deposit	OPM Arre	OPM Int it	
Close a buy	Misc		OPM pers	Mo profit	
Profit	MIS/(10%)				
Price needed	Net Cash Flow				

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# What you are GOING to LEARN

3- Apply 4 strategies and figure your offer –

Flippers, Keepers, L/O and BB's



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## What you are GOING to LEARN

- 4- Write your own contracts – choice
- Pay attorney – write a lot of ‘em
- Use broker – who are working for?



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Your notes

## What you are GOING to LEARN

- 5- Negotiate
- What is Moses hiding?
- The ancient Jewish secrets of Negotiation – I will teach them to you



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## What you are GOING to LEARN

- 6 - Show how to inspect:
- How to look at M/H's up close and personal
- “Roof to struts, soup to nuts”



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Your notes

## What you are GOING to LEARN

### 7- Find financing or NMD 6 ways for Charlie



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## What you are GOING to LEARN

### 8- Close and Flip



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## What you are GOING to LEARN

... or ...

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Your notes

## What you are **GOING** to **LEARN**

- 9- Manage cash flow
  - Pick tenants right from start – Qualify-eliminate 80% problems up front
  - Write lease
  - Manage for fun & Profit



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## **M-O-B-I-L-E** Investment System – Final Part

- 10- Set up a **REALISTIC ROAD MAP** tailored to your own **PERSONAL SITUATION** and **TIME** and Create an **ACTION PLAN** to make what you learn **WORK NOW!**



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# OK, are you ready Cowboys and Cowgirls?

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Your notes

## Here it Is! A Proven System 5,000 students



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## M/H Home Study Course Box that Spits out Money

- **Part 1 – Individual M/H's**
- **Each 6 CD's, 208 page manual, & all forms need to buy + manage**
- **5 CD'S are audio, 1 hour each**
- **6<sup>th</sup> CD has ALL FORMS**
- **Teach M-O-B-I-L-E skills**
- **\$995 each**



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## Mobile Home Wealth System BONUS #1

- **FIRST 10 BUYERS**
- **1/2 OFF**
- **\$495!**



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## RESULTS - CALOOSA MHP



- BOUGHT NO MONEY DOWN - \$650,000
- INCREASE NOI + \$12,600/mo +\$151,200/yr
- **AFTER 18 MOS, WE GOT \$10/K MONTH**
- **Increased 1.5 million in value**
- **How many would like that? 1 deal and become a millionaire?**

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Your notes

## M/H Home Study Course Box that Spits out Money

- **Part 2 - M/H Parks**
- **Each 6 CD's, 250 page manual, & all forms need to buy + manage**
- **5 CD'S are audio, 1 hour each**
- **6th CD has ALL FORMS**
- **Teach M-O-B-I-L-E skills**
- **\$995 each**



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## Mobile Home Wealth System BONUS #2

■ **1/2 OFF**

■ **\$495!**



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## How many want an even better deal Than 50% Off?



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Your notes

## Remember?

How many of you were scared of making mistakes?



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## I Remember

How SCARED I was.

And how I would have missed out on the best investments in my portfolio because of fear.

I'm not going to let it happen to you!



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## Mobile Home Wealth System BONUS #2 !

- **FIRST 3 MOS, I WILL GO OVER YOUR EFFECTIVE CONTRACTS BEFORE YOU BUY ANYTHING!**
- **CHARGE \$500/MO FOR THIS SERVICE - YOU GET IT FREE!**
- **\$1,500 - free!**



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Your notes

## Mobile Home Wealth System SUMMARY -PART 1 or 2

- **COMPLETE HOME STUDY**  
6 CD's, manual, forms  
**\$995**
- **3 mos Deal Reviews**  
**\$1,500**
- **TOTAL VALUE**  
**\$2,495**
- **TODAY**  
**\$495**
- **Save \$2,000**



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**In two hours, I taught Tommy's Aussie Mastermind class how to negotiate ... and they took advantage of me - now you can, too.**



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## Mobile Home Wealth System SPECIAL AUSSIE DEAL

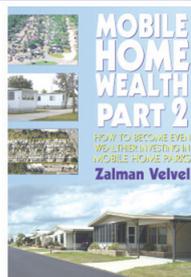
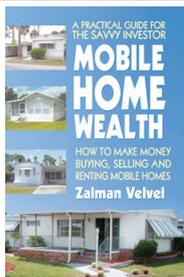
- **2 COMPLETE HOME STUDY**  
each 6 CD's, manual, forms  
**\$1,990**
- **3 mos Deal Reviews**  
**\$3,000**
- **TOTAL VALUE** **\$4,990**
- **TODAY** **\$895**
  
- **Save \$4,000**



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Your notes

## And my 2 Books on M/H investing



**Wrote them as Zalman Velvel  
My pen name**

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## How To Order Your Pack

- Provided you mention 'Stephen G. McKnight', I am willing to offer you the same great price
- Contact me at:  
[www.TheMobileHomeMan.com](http://www.TheMobileHomeMan.com)  
(there is a link to contact me in the top menu)



# USA Property Investing

## Session 11

---

### Accounting & Tax



TIMING: DVD ..... Approx. time .....

#### Further notes

James Simango is a qualified accountant in two countries: he holds C.P.A. status in the U.S. and also in Australia. He is a partner in a Brisbane-based accounting firm.

Like many accountants, James has a mind full of important information and it was a pity that we only had 90 minutes available to cover topics that could easily have filled a two-day seminar.

I expect you'll find some of the content heavy going. Nonetheless, James did an excellent job and added good humour to explain just how important it is to manage your tax and accounting affairs as part of your investing activities.

I recommend that you adopt this approach towards accounting and tax: persevere and understand as much as you can, but don't try to be the expert. Remember that you can always make an appointment to see James to talk through your questions or seek specific advice.

James can be contacted via his website: [www.ustaxcentral.com](http://www.ustaxcentral.com).

#### Your notes

# US REAL PROPERTY & TAX



Your notes

## U.S. Housing Market

- Global Financial Crisis
- ↓
- Foreclosed Properties
- ↓
- Investment Opportunities
- ↓
- Foreign Property Investors
- ↓
- Purchasing U.S. Foreclosed Homes (Private Funds; SMSF, Borrow Against Equity )



## Taxation

- Form U.S. Investment Structure
- Sole Proprietor
- Foreign Trust
- Corporation
- Limited Liability Company

↓

Receive Rental Income / Dispose Property – Capital Gains

↓

File U.S. Taxes & Pay Tax

↓

Report U.S. Income on Australian Tax Return – Receive Foreign Tax Credit



## U.S. Foreign Investors

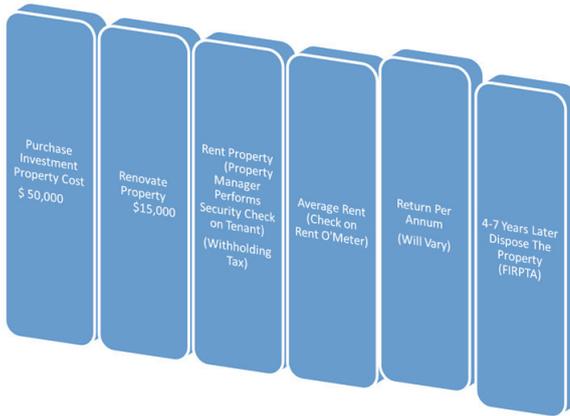


Crossing the oceans for new investing opportunities. Risk vs. Rewards



Your notes

## Aussies Buying & Renting



## ZIP CODES WITH HIGH FORECLOSURES

Zip Code	City	State	County	Average Rent Per Month (Rent O'Meter)
89031	North Las Vegas	NV	Clark	\$ 1,200
48228	Detroit	MI	Wayne	\$ 900
33993	Cape Coral	FL	Lee	\$ 900
93550	Lancaster	CA	Los Angeles	\$ 1,300



## Internal Revenue Service (IRS)



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Your notes

## Internal Revenue Service (IRS)

- The IRS is the revenue service department of the United States federal government.
- The agency is a bureau of the Department of the Treasury, and is under the immediate direction of the Commissioner of Internal Revenue.
- The IRS is responsible for collecting taxes and the interpretation and enforcement of the Internal Revenue Code(IRC) - U.S. tax law.

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## Internal Revenue Service (IRS)



*The US Tax System uses a big club approach to encourage tax compliance.*

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## Penalties!



**Charge: Criminal intent to evade U.S. Tax**

**Sentence: Fines + 3 years jail time**

**Consequence: Some homes foreclosed**

**Report all your income and no one gets hurt.**



Your notes

## Most Common Civil Penalties

- Failure to file an income, estate or gift tax return
- Failure to file on time
- Failure to withhold taxes on U.S. income paid to a foreign person (U.S. Withholding Agent)
- Failure to file regarding the withholding taxes
- Failure of a partnership with foreign partners to withhold tax every few months on U.S. business income.
- + PLUS INTEREST



## Just a few IRS Forms

- Form 1065 Partnerships (LLC)
- Form 1040NR Individual & F. Trusts
- Form W-8BEN To lower withholding tax
- Form W7 ITIN Application
- Form 1042S Report withholding tax
- Form 8804 & 8805 - Report withholding tax
- Form 1120 / 1120F - Corporations



## Why File U.S. Tax Returns

- Effectively Connected Income to a business or trade in the U.S.
- Election to be taxed on a net position (not automatic)
- Losing benefit to be taxed on a net position
- Investment no longer has economic sense if you are penalized



## Important Filing Dates

- March 15<sup>th</sup> Corporations (File extension to file)
- April 15<sup>th</sup> Individuals, Partnerships, Estates (File extension to file)
- Sept 15<sup>th</sup> Corp's, Partnerships, Trusts and Estates with extensions.
- October 15<sup>th</sup> Individuals that filed extensions



## Australian Tax Office (ATO)



Your notes

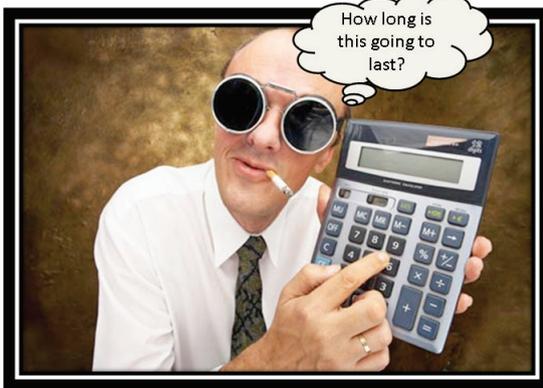
## Australian Tax

- Double Taxation Agreement – Article 6 gives the U.S. 1<sup>st</sup> taxation rights to foreign real property income
- Australia has the duty under Article 6 to give foreign investors a foreign tax credit on taxes paid overseas
- No accruals of foreign tax credit allowed, it is tax actually paid that you can use on the Australian tax return.



Your notes

## Accountants, Lawyers, Bankers, Realtors



## U.S. Tax System

Objective of U.S. tax law is to:

- subject rental income and any gain on sale from U.S. real estate to two levels of U.S. tax:
  1. U.S. regular tax on operating income and gain from sale of investment and
  2. U.S. withholding tax on repatriation of operating income and the gain on disposition



## U.S. Tax System

Objective for foreign investors:

# SIMPLE

“Minimize these taxes or better eliminate them completely.”



Your notes



## U.S. Tax System



Tax is imposed by:

1. Federal Government
2. States Authorities
3. Local governments



## Federal Taxes

- Income Tax - is a tax levied on the income of individuals or businesses (corporations or other legal entities).
- Corporate taxes – for companies
- Personal taxes – for LLC members
- Capital gains taxes – levied on sale of capital assets
- Gift Taxes – are imposed on the donor. Have an annual exclusion of \$13,000
- Estate taxes – arise on the death of an individual



Your notes

## U.S Withholding Tax

What is it?

Tax withheld from a foreign investors is referred to as non-resident alien, or NRA, withholding, and is different from regular income tax withholding.

The typical withholding percentage is 30%, although exemptions are allowed, which can lower this percentage.

How does it apply to property investors?

If you are a foreign partner in a U.S. or foreign partnership, the partnership will withhold tax on your share of effectively connected taxable income from the partnership, the highest rate is 35%.

How can foreigners avoid it?

But can be reduced using form W-8BEN. Claim the tax withheld as a credit on your personal U.S. tax return.



What is an ITIN?

Individual Tax Identification Numbers. It is the same as TFN. You cannot file a tax return without this number.

What is an EIN?

Employer Identification Number – Business Tax Number. It is the same as ABN.

Income Tax Forms what does it look like?

You can find them online: Form 1065, Form 1040, but there are numerous supporting forms. These are the main forms.



## FIRPTA

What is it?

Foreign Investment In Real Property Act (FIRPTA) is a United States tax provision that imposes income tax on foreign persons disposing of United States real property interests.

How does it apply to property investors?

Purchasers of real property interests are required to withhold tax on payment for the property from a foreign investor.

How can foreigners avoid it?

Withholding may be reduced from the standard 10% to an amount that will cover the tax liability, upon application in advance of sale to the Internal Revenue Service.



Your notes

## State Taxes

- State income tax is an income tax in the United States that is levied by each state.
- The state income is sourced has taxation rights over that income.
- Seven states impose no income tax:
  - Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (but *may* tax foreign investors)
- New Hampshire and Tennessee limit their state income tax to only dividends and interest income



## Local Governments

- Property tax on real estate is usually levied by local government, at the municipal or county level.
- Rates vary across the states
- The assessment is made up of two components:
  1. the improvement or building value, and
  2. the land or site value.

The property tax is the main tax supporting local education, police/fire protection, local governments, some free medical services, and most of other local infrastructure.



# U.S Taxation of Property Profits



Your notes

Individuals

Non-Resident are taxed on the single taxpayers 10% - 35%

Corporations

Up to 35%



Taxation treatment of positive cash flow?

It is taxed on the effective marginal tax rate of the taxpayer.

Taxation treatment of Capital Gains?

Qualified capital gains and dividends currently are taxed at a maximum rate of 15 per cent for individuals and 35% for corporations.

Concessional Tax Treatment?

Long term capital gains – receive a lower tax rates – up to 15%

Short term capital gains - ordinary income rates



### Sec 1031 Exchange

Under Section 1031 of the United States Internal Revenue Code (26 U.S.C. § 1031), the exchange of certain types of property may defer the recognition of capital gains or losses due upon sale, and hence defer any capital gains taxes otherwise due.

Any Real Estate property owner or investor of Real Estate, should consider an exchange when he/she expects to acquire a replacement "like kind" property subsequent to the sale of his existing investment property.

### The impacts of deliberately negative gearing

Negative gearing implications in the U.S. – results in suspended losses. Australia allows foreign losses to be deducted against ordinary income.

- Creates a tax provision / timing differences
- Danger of double dipping of benefits
- Cash flow impact can be spread and over the years and can be affected by foreign currency translations (Risk)
- Inflationary pressures



Your notes

## Entity Options



## Sole Proprietor

- A sole proprietorship is a business owned and operated by an individual.
- It is the easiest type of business to establish as no state filing or agreement with other owners is required.
- Once an individual starts selling goods or services, he or she has essentially created a sole proprietorship.



## Advantages of Sole Proprietorships

- Relatively little time or expense required for creation
- No state paperwork required for creation
- Most states do not impose a fee for the privilege of existing
- No separate tax filing for the business is required; instead profits or losses of the business are reported on the owner's tax return



Your notes

## Disadvantages of Sole Proprietorships

- The owner is personally responsible for the debts and liabilities of the business
- Obtaining capital, through such means as a bank loan, can be more difficult as lending institutions often require a more formal entity structure



## General Partnership

- A general partnership is a business owned by two or more people.
- Like sole proprietorships, general partnerships are easy to establish.
- They typically come into existence by written or oral agreement of the owners.
- However, having a written agreement that outlines each partner's rights and responsibilities is recommended.



### Advantages of General Partnerships

- Relatively little time or expense required for creation
- No state paperwork required for creation
- Most states do not impose a fee for the privilege of existing
- No separate tax filing for the business is required; instead profits or losses of the business are reported on the partners' individual tax returns



Your notes

### Disadvantages of General Partnership

- Partners are personally responsible for the debts and liabilities of the business
- Partners are typically responsible for the business-related actions of the other partners
- Obtaining capital, through such means as a bank loan, can be more difficult as lending institutions often require a more formal entity structure



### C - Corporation

- The standard corporation, also called a C corporation, is the most common corporate structure.
- To create a corporation, the proper formation documents, typically called the articles of incorporation or certificate of incorporation, must be filed with the appropriate state agency and the necessary state filing fees paid.



## Advantages of C-Corp

- Shareholders are typically not personally responsible for the debts and liabilities of the business
- C corporations can have an unlimited number of shareholders
- Ownership is easily transferable through the sale of stock
- Corporations have unlimited life extending beyond the illness or death of the owners
- Certain business expenses may be tax-deductible
- Additional capital can be raised by selling shares of the corporation's stock



Your notes

## Disadvantages of C-Corp

- Double taxation of profits may occur
- Corporations are more expensive to form than sole proprietorships and partnerships and face ongoing state-imposed filing requirements and fees
- Corporations face ongoing corporate formalities, such as holding and properly documenting annual meetings of directors and shareholders



## Limited Liability Company

- The limited liability company (LLC) is a business entity that offers limited liability protection and pass-through taxation.
- To form an LLC, the appropriate formation documents, called the articles of organization or certificate of organization, must be filed with the appropriate state agency and the necessary state filing fees paid.



### Advantages of LLC

- LLCs allow for pass-through taxation
- Members are not typically held personally responsible for the debts and liabilities of the business
- LLCs generally have no restrictions on the number of members allowed
- Members have flexibility in structuring the management of the company
- The LLC does not require as much annual paperwork or have as many formalities as C corporations and S corporations



Your notes

### Disadvantages of LLC

- LLCs are more expensive to form than sole proprietorships and partnerships
- Ownership is typically harder to transfer than with a corporation
- Because the LLC is a newer business structure, there is not as much case law to rely on for determining precedent



### S - Corporation



CHARACTERISTICS	Limited Liability Company	C Corporation
Formation	State filing required	State filing required
Duration of Existence	Dependent on the requirements imposed by the state of formation	Perpetual
Liability	Members are not typically responsible for the debts of the LLC	Shareholders are typically not responsible for the debts of the corporation
Operational Requirements	Some formal requirements but less formal than corporations	Board of directors who are elected by shareholders
Management	Members have an operating agreement that outlines management.	Managed by directors who are elected by shareholders.
Taxation	If properly structured there is no tax at the entity level. Income/loss is passed through to members.	Taxed at the entity level. If dividends are distributed to shareholders, dividends are also taxed at the individual level.
Pass-Through Income/Loss	Yes	No
Double Taxation	No	Yes, if income distributed to shareholders as dividends.
Cost of Creation	State filing fee required.	State filing fee required.
Raising Capital	Possible to sell interests, through subject to operating agreement restrictions.	Shares of stock are sold to raise capital.
Transferability of Interest	Possible, dependent on operating agreement restrictions.	Shares of stock are easily transferred.



Your notes

## LLC vs. Sole Proprietor



CHARACTERISTICS	Limited Liability Company	Sole Proprietorship
Formation	State filing required	No state filing required
Duration of Existence	Dependent on the requirements imposed by the state of formation	Dissolved if entity ceases doing business or upon death of the sole proprietor.
Liability	Members are not typically responsible for the debts of the LLC	Sole proprietor has unlimited liability.
Operational Requirements	Some formal requirements but less formal than corporations	Relatively few legal requirements
Management	Members have an operating agreement that outlines management.	Sole proprietor has full control of management and operations
Taxation	If properly structured there is no tax at the entity level. Income/loss is passed through to members.	Not a taxable entity. Sole proprietor pays all taxes.
Pass-Through Income/Loss	Yes	Yes
Double Taxation	No	No
Cost of Creation	State filing fee required.	None
Raising Capital	Possible to sell interests, through subject to operating agreement restrictions.	Often difficult unless individual contributes funds.
Transferability of Interest	Possible, dependent on operating agreement restrictions.	No



## Estate Taxes



Your notes

## Estate Taxes

- This is an inheritance tax
- Estate taxes are levied on the person receiving assets from the person that died.
- If you administer your trust holding U.S. assets either through a domestic or foreign trust your estate may be taxed in the U.S.
- If you have a foreign trust or considering setting up one – find skilled and experienced professionals.
- It is possible for the foreign trust holding U.S. assets to escape estate tax



## Common Allowable Deductions



## Common Allowable Deductions

- Ordinary and necessary expenses attributable to property held in the production of rents or royalties may be deducted.

1. Advertising
2. Legal fees
3. Tax preparation fees
4. Commissions
5. Depreciation



## Common Allowable Deductions

- Insurance
- Interest
- Travel
- Rental payments
- Local taxes
- Repairs
- Cleaning and Maintenance



## Duty to keep records



Your notes

## Storing tax records: How long is long enough?

- Federal law requires you to maintain copies of your tax returns and supporting documents for three years.
- This is called the "three-year law" and leads many people to believe they're safe provided they retain their documents for this period of time.



## Storing tax records: How long is long enough?

- However, if the IRS believes you have significantly underreported your income (by 25 per cent or more), or believes there may be indication of fraud, it may go back six years in an audit.
- SHRED your records after the retention period is over .....because of IDENTITY THEFT is on the rise.



## Tips

- File your tax returns on time
- Do not give anyone you do not know your ITIN
- When you have disposed property inform all the institution's because they continue reporting to the IRS on your behalf –might cause problems
- IRS will **never** communicate with you using email.



Your notes



## Our Services

- Specialize on cross border issues between Australia and U.S. (File U.S. Files U.S. taxes and Australian taxes)
- Pre-Investment Consultation
- Post-Investment Consultation
- Equip Investors to manage properties from abroad.
- Expat Taxation

[www.ustaxcentral.com](http://www.ustaxcentral.com)

(07)3040 3586



Your notes

# USA Property Investing

## Session 11

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### Q & A



TIMING: DVD ..... Approx. time .....

#### Further notes

As the two-day seminar drew to a close, time was allocated to a panel question-and-answer session. Throughout the weekend, participants had been writing down their questions on cards and periodically submitting them to be answered in this session.

The workbook notes for this session contain 35 questions that were asked, laid out in such a way that you can write down the answers while watching the DVD.

#### Your notes



**Q1:** U.S. MasterMind training – is Tommy’s team able to assist with bank loans in the U.S.?

**Q2:** With property values plummeting in the U.S., are counties increasing property tax levy rates to retain their overall income? i.e. instead of 1%, say 2% or 3% tax?

**Q3:** Steve – why did you get 5% (\$53.93) interest on your lien when you bid and won at an interest rate of 18%?

**Q4:** I am intending to buy direct property in the U.S. through an LLC. I know I need an EIN, but do I require an ITIN?

**Q5:** Can more than one person sit in the entity?

**Q6:** What were the closing costs such as stamp duty when Tommy bought and sold the house in three days to an eBay purchaser, where the margin was \$7000?

**Q7:** Does the county's property value include the house?

**Q8:** How is the interest determined for a tax lien purchased over the counter?



**Q9:** Why would you do direct property investing at 13–20% plus more risk and cost versus tax liens at 15–18% with less risk and less cost?

**Q10:** Are the realised currency gains and losses treated as capital gains and losses or income?

**Q11:** Are county valuations accurate? Can they be trusted when buying tax liens?

**Q12:** Although I accept you and Tommy buy very well, what is the realistic chance that average people have of actually finding really good deals?

**Q13:** With the positive cash flow component, why would you suggest reinvesting the money?

**Q14:** What are the repercussions (tax implications) of bringing the cash back to Australia?

**Q15:** Is it possible to create a passive cash flow regularly paid to Australia, once a portfolio is set up?

**Q16:** Is the HSBC form suited to applying for a bank account for a U.S. LLC, or is a different application form required?

**Q17:** Are there accounting and attorney contacts in the U.S. that you can provide?

**Q18:** Can I put any conditions I like on the purchase contract or are they fairly standard? Can I put on a due diligence or title insurance clause? Or access for prospective tenants/maintenance and quotes?

**Q19:** What vacancy rates can we expect?

**Q20:** Is it possible to find out if there is a problem with the title of a foreclosing property before you buy it if you can't get title insurance until after the auction?

**Q21:** Should you put all of your eggs in one LLC basket?

**Q22:** Do you need to set up the LLC in the state that you are doing business? If not, can multiple states be run through one LLC?

**Q23:** How do evictions work for mobile homes when it is a land lease situation and the person in arrears owns the mobile home?

**Q24:** What is your advice about buying U.S. properties direct from an Australian-based buyers' agent?



**Q25:** Does tax apply to any profit return made on tax liens? Can James help with setting up a bank account in the U.S.?

**Q26:** On a U.S. property contract of sale – is there an equivalent of 'and/or nominee'?

**Q27:** There seems to be no suggestion we need to have a boundary survey to ensure we know where the property is. Is that right?

**Q28:** What is your experience with dealing into section 8 tenants: good or bad?

**Q29:** If I want to buy over-the-counter tax liens by phone to the county, can I register with the county online?

**Q30:** What would be the notice period to the tenants when you want to sell the property?

**Q31:** Do U.S. property sale contracts have cooling-off rewards?

**Q32:** For Stu: What are the costs of court orders (for evictions)?



**Q33:** Can you make a comment on Stu's signals in relation to the Australian market?

**Q34:** So how do you collect rent in dangerous areas?

**Q35:** Tenants – do they have leases like in Australia?

Your notes

# USA Property Investing

## Day 2 Debrief

 **PropertyInvesting.com**  
Sharing Knowledge, Building Wealth

**TIMING:** DVD ..... Approx. time .....

### Further notes

As we come to the end of the product, let's take a moment to recap our journey.

Day 1 began by analysing the risks and rewards of overseas investing, and it became clear that in order for U.S. property to be a viable money-making endeavour, the upsides had to outweigh the downsides by enough of a margin to make taking on the risks worthwhile.

We also covered how you will make and lose money as you send it overseas and bring it home again. In fact, if you're not careful, you might find your investing profit severely eroded or even wiped out by foreign exchange losses.

A lot of time and effort was spent talking about due diligence; in particular, that while you will need to rely on a team of U.S.-based advisers, it's you who has the ultimate responsibility for analysing, buying, managing and selling your investments.

Day 1 ended with a comprehensive review of investing in tax liens and direct property.

Do you agree that Day 2 had a different flavour and feel? That was intentional, because the aim was to help you gain greater confidence and clarity, and this required more practical examples.

You met Aran – an Australian who is pushing ahead full steam with his U.S. investing dreams. I also introduced you to my 'adopted' Uncle Zally (Stu Silver) – a seasoned U.S. investing expert who provided an interesting insight into the world of mobile homes.

### Further notes (cont'd)

In regards to content, we covered tenancy, management and selling, and James Simango introduced us to many of the accounting and tax issues we need to know about and ultimately overcome.

The question I have for you is this: what are you going to do with all this new information that's now in your head, and how are you going to use it to make money?

### Your notes

# Question 1

## What are the reasons why you won't succeed?

- Lack of desire?
- Lack of time?
- Lack of money?
- Lack of skill?

TIMING: DVD ..... Approx. time .....

### Further notes

Here are four final questions to leave you with.

#### Question 1

Let's rewind to a fateful day in 1998 when I distinctly remember sitting down with my business partner and drawing an interesting diagram on a whiteboard. I drew a stick figure (I'm not good at drawing) on the left-hand side, a finish line on the right-hand side, and a series of hurdles in between. Then I drew the same picture underneath, but this time without hurdles.

Turning to my business partner I asked, 'Which person will win the race sooner? The one jumping over the hurdles, or the one who can sprint?' The answer was obvious – the sprinter.

Then I asked this: 'If the name of the game is to win the race in the quickest time, and assuming for a moment the hurdles are there by choice, wouldn't it make sense to remove them before the race started?' The answer was obvious – of course.

'Well,' I said. 'It seems to me that most people start their investing race with no idea of what's ahead and spend their time sprinting between hurdles that, with a little planning, could have been removed in advance.' Thirteen years on, I continue to make the same observation.

### Further notes (cont'd)

In regards to your U.S. investing, would you prefer to sprint and get to your desired outcome sooner, or take the more time-consuming, difficult and riskier hurdle option of running into problems and then having to jump over them? Surely the smartest thing to do is to take away as many hurdles as possible. This can be done by thinking about and then making a plan to overcome all the reasons why you think you won't succeed well before you've bought a tax lien or U.S. property.

### Your notes

# Question 2

## How Should You Be Preparing Now?

- Strategy
- Structure
- Tax ID
- Banking
- US Presence
- US Team

TIMING: DVD ..... Approx. time .....

### Further notes

I've never met an investing veteran who honestly attributes his or her long-term success to luck. Sure, there may be some good fortune from time to time, but there is far more strategy, planning and preparation.

It would be a mistake to simply turn up in the U.S. and hope for the best. Instead, smart investors will complete the bulk of their planning and preparation from Australia before flying over to the U.S. The best time to start your planning and preparation is right now!

### Your notes

# Question 3

## What's Your Next Step?

- ITIN Application
- Next online tax lien auction
- Trip to the US

TIMING: DVD ..... Approx. time .....

### Further notes

Having almost completed this workbook, it's now time to think about your next step.

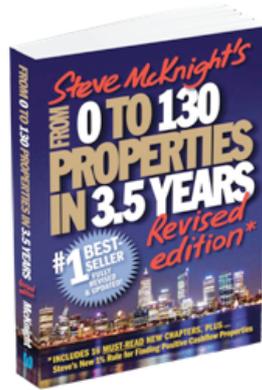
Will it be to apply for a U.S. tax ID? Or to check where and when the next online tax lien auction will be held? Are you thinking about going over and doing Tommy's MasterMind training?

Whatever your answer, make sure you do something. You've created a lot of investing momentum by studying this resource. Don't waste what you have worked so hard to establish. Use your knowledge to make money.

### Your notes

# Question 4

## Is It A Must Or A Maybe?



TIMING: DVD ..... Approx. time .....

### Further notes

If you read my book *From 0 to 130 Properties In 3.5 Years* and wished that you had bought positive cash flow properties like I did in 1999, then you've been given a second chance.

With the Australian dollar at record highs, and with properties in many U.S. cities falling in value by up to 80%, there has never been a better time for Aussies to make a play in the U.S. real estate market.

That said, there are very real risks, and so this isn't an opportunity that should be pursued blindly or without proper planning.

However, if you are interested, and you are in a position to capitalise, then is achieving financial freedom a big enough incentive to mobilise you into taking action? Alternatively, is the pain of staying where you are greater than the pain of making the effort of trying something new? If so, then perhaps you will be able to find the courage to try.

As for me, it's time to sign off and say goodbye. The opportunity to buy U.S. property won't be so good forever, and I want to make hay while the sun is shining. I have more U.S. deals to analyse and more offers to submit.

Until we meet again, God bless and remember... success comes from doing things differently.

# Appendix



1. SALE AND PURCHASE: \_\_\_\_\_ ("Seller")  
 and Urban Transformation, LLC \_\_\_\_\_ ("Buyer")  
 agree to sell and buy on the terms and conditions specified below the property described as:  
 Address: 5419-2ND AVE + 1910-1912 MAPLE DR, FORT MYERS  
Florida County: LEE  
 Legal Description: \_\_\_\_\_  
 Tax ID No: \_\_\_\_\_

together with all improvements and attached items, including fixtures, built-in furnishings, built-in appliances, ceiling fans, light fixtures, attached wall-to-wall carpeting, rods, draperies and other window coverings. The only other items included in the purchase are: \_\_\_\_\_

The following attached items are excluded from the purchase: \_\_\_\_\_

The real and personal property described above as included in the purchase is referred to as the "Property." Personal property listed in this Contract is included in the purchase price, has no contributory value and is being left for Seller's convenience.

**PRICE AND FINANCING**

2. PURCHASE PRICE: \$ \_\_\_\_\_ payable by Buyer in U.S. currency as follows:  
 (a) \$ 40,000.00 Deposit received (checks are subject to clearance) \_\_\_\_\_ by

\_\_\_\_\_  
 Signature for \_\_\_\_\_ ("Escrow Agent")  
 Name of Company

(b) \$ \_\_\_\_\_ Additional deposit to be delivered to Escrow agent by \_\_\_\_\_  
 or \_\_\_\_\_ days from Effective Date (10 days if left blank).

(c) \_\_\_\_\_ Total financing (see Paragraph 3 below) (express as a dollar amount or percentage)

(d) \$ 4000 Other: Deposit paid upon acceptance by all parties.

(e) \$ 39,500  
36,000 Balance to close (not including Buyer's closing costs, prepaid items and prorations). All funds paid at closing must be paid by locally drawn cashier's check, official bank check or wired funds.

3. FINANCING: (Check as applicable)  
 (a) Buyer will pay cash for the Property with no financing contingency.  
 (b) Buyer will apply for the financing specified in Paragraph 2(c) at the prevailing interest rate and loan costs based on Buyer's creditworthiness (the "Financing") within \_\_\_\_\_ days from Effective Date (5 days if left blank) and provide Seller with a written Financing commitment or approval letter ("Commitment") within \_\_\_\_\_ days from Effective Date (30 days if left blank) ("Commitment Period"). Buyer will keep Seller and Broker fully informed of the loan application status, progress and Commitment issues and authorizes the lender and mortgage broker to disclose all such information to Seller and Broker. Once Buyer provides the Commitment to Seller, the financing contingency is waived and Seller will be entitled to retain the deposits if the transaction does not close by the Closing Date unless (1) the Property appraises below the purchase price and either the parties cannot agree on a new purchase price or Buyer elects not to proceed, or (2) another provision of this Contract requires the deposits to be returned. If Buyer, using diligence and good faith, cannot provide the Commitment within the Commitment Period, this Contract will be terminated and Buyer's deposits refunded.

**CLOSING**

4. CLOSING DATE; OCCUPANCY: Unless extended by other provisions of this Contract, this Contract will be closed on 31 AUGUST, 2010 ("Closing Date") at the time established by the closing agent, by which time Seller will (a) have removed all personal items and trash from the Property and swept the Property clean and (b) deliver the deed, occupancy and possession, along with all keys, garage door openers and access codes, to Buyer. If on Closing Date insurance underwriting is suspended, Buyer may postpone closing up to 5 days after the insurance suspension is lifted. If this transaction does not close for any reason, Buyer will immediately return all Seller-provided title evidence, surveys, association documents and other items.

Buyer (IS) (\_\_\_\_\_) and Seller ([Signature]) (\_\_\_\_\_) acknowledge receipt of a copy of this page, which is Page 1 of 6 Pages.  
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50 **5. CLOSING PROCEDURE; COSTS:** Closing will take place in the county where the Property is located and may be conducted  
51 by mail or electronic means. If title insurance insures **Buyer** for title defects arising between the title binder effective date and  
52 recording of **Buyer's** deed, closing agent will disburse at closing the net sale proceeds to **Seller** and brokerage fees to Broker as  
53 per Paragraph 19. In addition to other expenses provided in this Contract, **Seller** and **Buyer** will pay the costs indicated below.

54 **(a) Seller Costs:** **Seller** will pay taxes and surtaxes on the deed and recording fees for documents needed to cure title;

55 Other: \_\_\_\_\_

56 **(b) Buyer Costs:** **Buyer** will pay taxes and recording fees on notes and mortgages; recording fees on the deed and  
57 financing statements; loan expenses; lender's title policy; inspections; survey; flood insurance; home warranty plan;

58 Other: \_\_\_\_\_

59 **(c) Title Evidence and Insurance: Check (1) or (2):**

60  **(1)** The title evidence will be a Paragraph 10(a)(1) owner's title insurance commitment as title evidence.  **Seller**  **Buyer**  
61 will select the title agent.  **Seller**  **Buyer** will pay for the owner's title policy, search, examination and related charges.  
62 Each party will pay its own closing fees.

63  **(2)** **Seller** will provide an abstract as specified in Paragraph 10(a)(2) as title evidence.  **Seller**  **Buyer** will pay for the  
64 owner's title policy and select the title agent. **Seller** will pay fees for title searches prior to closing, including tax search  
65 and lien search fees, and **Buyer** will pay fees for title searches after closing (if any), title examination fees and closing fees.

66 **(d) Prorations:** The following items will be made current (if applicable) and prorated as of the day before Closing Date: real  
67 estate taxes, interest, bonds, assessments, association fees, insurance, rents and other current expenses and revenues of the  
68 Property. If taxes and assessments for the current year cannot be determined, the previous year's rates will be used with  
69 adjustment for exemptions and improvements. **Buyer** is responsible for property tax increases due to change in ownership.

70 **(e) Special Assessment by Public Body:** Regarding special assessments imposed by a public body, **Seller** will pay (i) the full  
71 amount of liens that are certified, confirmed and ratified before closing and (ii) the amount of the last estimate of the assessment  
72 if an improvement is substantially completed as of Effective Date but has not resulted in a lien before closing, and **Buyer** will pay  
73 all other amounts.

74 **(f) Tax Withholding:** **Buyer** and **Seller** will comply with the Foreign Investment in Real Property Tax Act, which may require  
75 **Seller** to provide additional cash at closing if **Seller** is a "foreign person" as defined by federal law.

76 **PROPERTY CONDITION**

77 **6. INSPECTION PERIODS:** **Buyer** will complete any and all inspections of the Property by \_\_\_\_\_, 2010  
78 (within 10 days from Effective Date if left blank) ("Inspection Period"); the walk-through inspection on the day before Closing  
79 Date or any other time agreeable to the parties; and the survey referenced in Paragraph 10(c) by \_\_\_\_\_,  
80 (at least 5 days prior to closing if left blank).

81 **7. REAL PROPERTY DISCLOSURE:** **Seller** represents that **Seller** does not know of any facts that materially affect the value of  
82 the Property, including but not limited to violations of governmental laws, rules and regulations, other than those that **Buyer**  
83 can readily observe or that are known by or have been disclosed to **Buyer**.

84 **(a) Energy Efficiency:** **Buyer** acknowledges receipt of the energy-efficiency information brochure required by Section  
85 553.996, *Florida Statutes*.

86 **(b) Radon Gas:** Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient  
87 quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and  
88 state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be  
89 obtained from your county public health unit. **Buyer** may, within the Inspection Period, have an appropriately licensed  
90 person test the Property for radon. If the radon exceeds acceptable EPA standards, **Seller** may choose to reduce the radon  
91 level to an acceptable EPA level, failing which either party may cancel this Contract.

92 **(c) Flood Zone:** **Buyer** is advised to verify by survey, with the lender and with appropriate government agencies which  
93 flood zone the Property is in, whether flood insurance is required and what restrictions apply to improving the Property and  
94 rebuilding in the event of casualty. If the Property is in a Special Flood Hazard Area or Coastal High Hazard area and the  
95 buildings are built below the minimum flood elevation, **Buyer** may cancel this Contract by delivering written notice to **Seller**  
96 within 20 days from Effective Date, failing which **Buyer** accepts existing elevation of the buildings and zone designation of  
97 the Property.

98 **(d) Homeowners' Association:** If membership in a homeowners' association is mandatory, an association disclosure  
99 summary is attached and incorporated into this Contract. BUYER SHOULD NOT SIGN THIS CONTRACT UNTIL BUYER  
100 HAS RECEIVED AND READ THE DISCLOSURE SUMMARY.

101 **(e) PROPERTY TAX DISCLOSURE SUMMARY:** BUYER SHOULD NOT RELY ON THE SELLER'S CURRENT  
102 PROPERTY TAXES AS THE AMOUNT OF PROPERTY TAXES THAT BUYER MAY BE OBLIGATED TO PAY IN THE YEAR  
103 SUBSEQUENT TO PURCHASE. A CHANGE OF OWNERSHIP OR PROPERTY IMPROVEMENTS TRIGGERS  
104 REASSESSMENTS OF THE PROPERTY THAT COULD RESULT IN HIGHER PROPERTY TAXES. IF YOU HAVE ANY  
105 QUESTIONS CONCERNING VALUATION, CONTACT THE COUNTY PROPERTY APPRAISER'S OFFICE FOR FURTHER  
106 INFORMATION.

107\* **Buyer** (TS) ( ) and **Seller** ( ) ( ) acknowledge receipt of a copy of this page, which is Page 2 of 6 Pages.

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108 (f) **Mold:** Mold is part of the natural environment that, when accumulated in sufficient quantities, may present health risks to  
109 susceptible persons. For more information, contact the county indoor air quality specialist or other appropriate professional.

110 **8. As Is With Right to Inspect:** Seller makes no warranties other than marketability of title. Seller will keep the Property in the  
111 same condition from Effective Date until closing, except for normal wear and tear ("maintenance requirement"), and will  
112 convey the Property in its "as is" condition with no obligation to make any repairs.

113 (a) **Inspection Right; Seller Obligations:** Buyer may, at Buyer's expense, conduct professional and walk-through inspections  
114 as described below. If Buyer fails to timely conduct any inspection which Buyer is entitled to make under this paragraph,  
115 Buyer waives the right to the inspection and accepts the Property "as is." Seller will provide access and utilities for Buyer's  
116 inspections. Buyer will repair all damages to the Property resulting from the inspections and return the Property to its pre-  
117 inspection condition.

118 (b) **Professional Inspections:** The inspection(s) will be by a person who specializes in and holds an occupational license (if  
119 required by law) to conduct home inspections or who holds a Florida license to repair and maintain the items inspected.

120 (c) **Cancellation Right:** Buyer may cancel this Contract by written notice to Seller within \_\_\_ days (within 5 days if left  
121 blank) from the end of the Inspection Period if the estimated cost of treatment and repairs determined to be necessary by  
122 Buyer is greater than \$ 10,000.00. For the cancellation to be effective, Buyer must include in the written notice a  
123 copy of the inspector's written report, if any, and treatment and repair estimates from the inspector or person(s) holding an  
124 appropriate Florida license to repair the items inspected. Any conditions not reported in a timely manner will be deemed  
125 acceptable to Buyer.

126 (d) **Walk-through Inspection:** Buyer may walk through the Property solely to verify that Seller has fulfilled the contractual  
127 obligations. No other issues may be raised as a result of the walk-through inspection.

128 **9. RISK OF LOSS:** If any portion of the Property is damaged by fire or other casualty before closing and can be restored  
129 within 45 days from the Closing Date to substantially the same condition as it was on Effective Date, Seller will, at Seller's  
130 expense, restore the Property and the Closing Date will be extended accordingly. Seller will not be obligated to replace trees.  
131 If the restoration cannot be completed in time, Buyer may accept the Property "as is" with existing damage, in which case  
132 Seller will credit the deductible and assign the insurance proceeds, if any, to Buyer at closing in such amounts as are (i)  
133 attributable to the Property and (ii) not yet expended in making repairs and (iii) sufficient to restore the Property to its "as is"  
134 condition as of the Effective Date, failing which either party may cancel this Contract. If the Property is a condominium, this  
135 paragraph applies only to the unit and limited common elements appurtenant to the unit; if the Property is in a homeowners'  
136 association, this paragraph will not apply to common elements or recreation or other facilities.

#### 137 TITLE

138 **10. TITLE:** Seller will convey marketable title to the Property by statutory warranty deed or trustee, personal representative or  
139 guardian deed as appropriate to Seller's status.

140 (a) **Title Evidence:** Title evidence will show legal access to the Property and marketable title of record in Seller in  
141 accordance with current title standards adopted by the Florida Bar, subject only to the following title exceptions, none of  
142 which prevent residential use of the Property: covenants, easements and restrictions of record; matters of plat; existing  
143 zoning and government regulations; oil, gas and mineral rights of record if there is no right of entry; current taxes;  
144 mortgages that Buyer will assume; and encumbrances that Seller will discharge at or before closing. Seller will deliver to  
145 Buyer Seller's choice of one of the following types of title evidence, which must be generally accepted in the county where  
146 the Property is located (specify in Paragraph 5(c) the selected type). Seller will use option (1) in Palm Beach County and  
147 option (2) in Miami-Dade County.

148 (1) **A title insurance commitment** issued by a Florida-licensed title insurer in the amount of the purchase price and  
149 subject only to title exceptions set forth in this Contract and delivered no later than 2 days before Closing Date.

150 (2) **An existing abstract of title** from a reputable and existing abstract firm (if firm is not existing, then abstract must be  
151 certified as correct by an existing firm) purporting to be an accurate synopsis of the instruments affecting title to the  
152 Property recorded in the public records of the county where the Property is located and certified to Effective Date.  
153 However if such an abstract is not available to Seller, then a **prior owner's title policy** acceptable to the proposed insurer  
154 as a base for reissuance of coverage. Seller will pay for copies of all policy exceptions and an update in a format  
155 acceptable to Buyer's closing agent from the policy effective date and certified to Buyer or Buyer's closing agent,  
156 together with copies of all documents recited in the prior policy and in the update. If a prior policy is not available to  
157 Seller then (1) above will be the title evidence. Title evidence will be delivered no later than 10 days before Closing Date.

158 (b) **Title Examination:** Buyer will examine the title evidence and deliver written notice to Seller, within 5 days from receipt of  
159 title evidence but no later than closing, of any defects that make the title unmarketable. Seller will have 30 days from  
160 receipt of Buyer's notice of defects ("Curative Period") to cure the defects at Seller's expense. If Seller cures the defects  
161 within the Curative Period, Seller will deliver written notice to Buyer and the parties will close the transaction on Closing  
162 Date or within 10 days from Buyer's receipt of Seller's notice if Closing Date has passed. If Seller is unable to cure the  
163 defects within the Curative Period, Seller will deliver written notice to Buyer and Buyer will, within 10 days from receipt of

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165 Seller's notice, either cancel this Contract or accept title with existing defects and close the transaction.  
166 (c) Survey: Buyer may, at Buyer's expense, have the Property surveyed and deliver written notice to Seller, within 5 days  
167 from receipt of survey but no later than closing, of any encroachments on the Property, encroachments by the Property's  
168 improvements on other lands or deed restriction or zoning violations. Any such encroachment or violation will be treated in  
169 the same manner as a title defect and Buyer's and Seller's obligations will be determined in accordance with  
170 subparagraph (b) above. If any part of the Property lies seaward of the coastal construction control line, Seller will provide  
171 Buyer with an affidavit or survey as required by law delineating the line's location on the property, unless Buyer waives this  
172 requirement in writing.

#### 173 MISCELLANEOUS

174 11. **EFFECTIVE DATE; TIME:** The "Effective Date" of this Contract is the date on which the last of the parties initials or signs  
175 the latest offer. Time is of the essence for all provisions of this Contract. All time periods will be computed in business days (a  
176 "business day" is every calendar day except Saturday, Sunday and national legal holidays). If any deadline falls on a Saturday,  
177 Sunday or national legal holiday, performance will be due the next business day. All time periods will end at 5:00 p.m. local  
178 time (meaning in the county where the Property is located) of the appropriate day.

179 12. **NOTICES:** All notices will be made to the parties and Broker by mail, personal delivery or electronic media. Buyer's failure to  
180 deliver timely written notice to Seller, when such notice is required by this Contract, regarding any contingencies will render  
181 that contingency null and void and the Contract will be construed as if the contingency did not exist. Any notice, document  
182 or item given to or received by an attorney or Broker (including a transaction broker) representing a party will be as effective  
183 as if given to or by that party.

184 13. **COMPLETE AGREEMENT:** This Contract is the entire agreement between Buyer and Seller. Except for brokerage  
185 agreements, no prior or present agreements will bind Buyer, Seller or Broker unless incorporated into this Contract.  
186 Modifications of this Contract will not be binding unless in writing, signed or initialed and delivered by the party to be bound.  
187 This Contract, signatures, initials, documents referenced in this Contract, counterparts and written modifications  
188 communicated electronically or on paper will be acceptable for all purposes, including delivery, and will be binding. Handwritten  
189 or typewritten terms inserted in or attached to this Contract prevail over preprinted terms. If any provision of this Contract is or  
190 becomes invalid or unenforceable, all remaining provisions will continue to be fully effective. Buyer and Seller will use diligence  
191 and good faith in performing all obligations under this Agreement. This Contract will not be recorded in any public records.

192 14. **ASSIGNABILITY; PERSONS BOUND:** Buyer may not assign this Contract without Seller's written consent. The terms  
193 "Buyer," "Seller," and "Broker" may be singular or plural. This Contract is binding on the heirs, administrators, executors,  
194 personal representatives and assigns (if permitted) of Buyer, Seller and Broker.

#### 195 DEFAULT AND DISPUTE RESOLUTION

196 15. **DEFAULT: (a) Seller Default:** If for any reason other than failure of Seller to make Seller's title marketable after diligent effort,  
197 Seller fails, refuses or neglects to perform this Contract, Buyer may choose to receive a return of Buyer's deposit without  
198 waiving the right to seek damages or to seek specific performance as per Paragraph 16. Seller will also be liable to Broker for  
199 the full amount of the brokerage fee. (b) Buyer Default: If Buyer fails to perform this Contract within the time specified, including  
200 timely payment of all deposits, Seller may choose to retain and collect all deposits paid and agreed to be paid as liquidated  
201 damages or to seek specific performance as per Paragraph 16; and Broker will, upon demand, receive 50% of all deposits  
202 paid and agreed to be paid (to be split equally among cooperating brokers except when closing does not occur due to Buyer  
203 not being able to secure Financing after providing a Commitment, in which case Broker's portion of the deposits will go solely  
204 to the listing broker) up to the full amount of the brokerage fee.

205 16. **DISPUTE RESOLUTION:** This Contract will be construed under Florida law. All controversies, claims, and other matters in  
206 question arising out of or relating to this transaction or this Contract or its breach will be settled as follows:

207 (a) **Disputes concerning entitlement to deposits made and agreed to be made:** Buyer and Seller will have 30 days from  
208 the date conflicting demands are made to attempt to resolve the dispute through mediation. If that fails, Escrow Agent  
209 will submit the dispute, if so required by Florida law, to Escrow Agent's choice of arbitration, a Florida court or the Florida  
210 Real Estate Commission. Buyer and Seller will be bound by any resulting award, judgment, or order.

211 (b) **All other disputes:** Buyer and Seller will have 30 days from the date a dispute arises between them to attempt to  
212 resolve the matter through mediation, failing which the parties will resolve the dispute through neutral binding arbitration  
213 in the county where the Property is located. The arbitrator may not alter the Contract terms or award any remedy not  
214 provided for in this Contract. The award will be based on the greater weight of the evidence and will state findings of fact  
215 and the contractual authority on which it is based. If the parties agree to use discovery, it will be in accordance with the  
216 Florida Rules of Civil Procedure and the arbitrator will resolve all discovery-related disputes. Any disputes with a real  
217 estate licensee named in Paragraph 19 will be submitted to arbitration only if the licensee's broker consents in writing to  
218 become a party to the proceeding. This clause will survive closing.

219 (c) **Mediation and Arbitration; Expenses:** "Mediation" is a process in which parties attempt to resolve a dispute by  
220 submitting it to an impartial mediator who facilitates the resolution of the dispute but who is not empowered to impose a

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222 settlement on the parties. Mediation will be in accordance with the rules of the American Arbitration Association ("AAA")  
 223 or other mediator agreed on by the parties. The parties will equally divide the mediation fee, if any. "Arbitration" is a  
 224 process in which the parties resolve a dispute by a hearing before a neutral person who decides the matter and whose  
 225 decision is binding on the parties. Arbitration will be in accordance with the rules of the AAA or other arbitrator agreed on  
 226 by the parties. Each party to any arbitration will pay its own fees, costs and expenses, including attorneys' fees, and will  
 227 equally split the arbitrators' fees and administrative fees of arbitration.

228 **ESCROW AGENT AND BROKER**

229 **17. ESCROW AGENT:** Buyer and Seller authorize Escrow Agent to receive, deposit and hold funds and other items in escrow  
 230 and, subject to clearance, disburse them upon proper authorization and in accordance with Florida Law and the terms of this  
 231 Contract, including disbursing brokerage fees. The parties agree that Escrow Agent will not be liable to any person for  
 232 misdelivery of escrowed items to Buyer or Seller, unless the misdelivery is due to Escrow Agent's willful breach of this  
 233 Contract or gross negligence. If Escrow Agent interpleads the subject matter of the escrow, Escrow Agent will pay the filing  
 234 fees and costs from the deposit and will recover reasonable attorneys' fees and costs to be paid from the escrowed funds or  
 235 equivalent and charged and awarded as court costs in favor of the prevailing party. All claims against Escrow Agent will be  
 236 arbitrated, so long as Escrow Agent consents to arbitrate.

237 **18. PROFESSIONAL ADVICE; BROKER LIABILITY:** Broker advises Buyer and Seller to verify all facts and representations that  
 238 are important to them and to consult an appropriate professional for legal advice (for example, interpreting contracts,  
 239 determining the effect of laws on the Property and transaction, status of title, foreign investor reporting requirements, etc.) and  
 240 for tax, property condition, environmental and other specialized advice. Buyer acknowledges that Broker does not reside in the  
 241 Property and that all representations (oral, written or otherwise) by Broker are based on Seller representations or public records.  
 242 Buyer agrees to rely solely on Seller, professional inspectors and governmental agencies for verification of the Property  
 243 condition, square footage and facts that materially affect Property value. Buyer and Seller respectively will pay all costs and  
 244 expenses, including reasonable attorneys' fees at all levels, incurred by Broker and Broker's officers, directors, agents and  
 245 employees in connection with or arising from Buyer's or Seller's misstatement or failure to perform contractual obligations. Buyer  
 246 and Seller hold harmless and release Broker and Broker's officers, directors, agents and employees from all liability for loss or  
 247 damage based on (1) Buyer's or Seller's misstatement or failure to perform contractual obligations; (2) Broker's performance, at  
 248 Buyer's and/or Seller's request, of any task beyond the scope of services regulated by Chapter 475, F.S., as amended, including  
 249 Broker's referral, recommendation or retention of any vendor; (3) products or services provided by any vendor; and (4) expenses  
 250 incurred by any vendor. Buyer and Seller each assume full responsibility for selecting and compensating their respective vendors.  
 251 This paragraph will not relieve Broker of statutory obligations. For purposes of this paragraph, Broker will be treated as a party to  
 252 this Contract. This paragraph will survive closing.

253 **19. BROKERS:** The licensee(s) and brokerage(s) named below are collectively referred to as "Broker." **Instruction to Closing**  
 254 **Agent:** Seller and Buyer direct closing agent to disburse at closing the full amount of the brokerage fees as specified in separate  
 255 brokerage agreements with the parties and cooperative agreements between the brokers, except to the extent Broker has  
 256 retained such fees from the escrowed funds. In the absence of such brokerage agreements, closing agent will disburse  
 257 brokerage fees as indicated below. This paragraph will not be used to modify any MLS or other offer of compensation made by  
 258 Seller or listing broker to cooperating brokers.

259\* \_\_\_\_\_  
 260\* Selling Sales Associate/License No. \_\_\_\_\_ Selling Firm/Brokerage Fee: (\$ or % of Purchase Price) \_\_\_\_\_

261\* \_\_\_\_\_  
 262\* Listing Sales Associate/License No. \_\_\_\_\_ Listing Firm/Brokerage fee: (\$ or % of Purchase Price) \_\_\_\_\_

263 **ADDENDA AND ADDITIONAL TERMS**

264 **20. ADDENDA:** The following additional terms are included in addenda and incorporated into this Contract (check if applicable):

- |  |  |  |  |
|--|--|--|--|
| 265* <input type="checkbox"/> A. Condo. Assn.      | <input type="checkbox"/> H. As-is w/ Right to Inspect    | <input type="checkbox"/> O. Interest-Bearing Account       | <input checked="" type="checkbox"/> V. Prop. Disclosure Stmt.                |
| 266* <input type="checkbox"/> B. Homeowners' Assn. | <input checked="" type="checkbox"/> I. Inspections       | <input type="checkbox"/> P. Back-up Contract               | <input type="checkbox"/> W. FRPTA  |
| 267* <input type="checkbox"/> C. Seller Financing  | <input type="checkbox"/> J. Insulation Disclosure        | <input type="checkbox"/> Q. Broker - Pers. Int. in Prop.   | <input type="checkbox"/> X. 1031 Exchange                                    |
| 268* <input type="checkbox"/> D. Mort. Assumption  | <input type="checkbox"/> K. Pre-1978 Housing Stmt. (LBP) | <input checked="" type="checkbox"/> R. Rentals             | <input type="checkbox"/> Y. Additional Clauses                               |
| 269* <input type="checkbox"/> E. FHA Financing     | <input type="checkbox"/> L. Insurance                    | <input type="checkbox"/> S. Sale/Lease of Buyer's Property | <input checked="" type="checkbox"/> Other <u>Buyer's Addendums</u> <b>AG</b> |
| 270* <input type="checkbox"/> F. VA Financing      | <input type="checkbox"/> M. Housing Older Persons        | <input type="checkbox"/> T. Rezoning                       | <input type="checkbox"/> Other _____   |
| 271* <input type="checkbox"/> G. New Mort. Rates   | <input type="checkbox"/> N. Unimproved/Ag. Prop.         | <input type="checkbox"/> U. Assignment                     | <input type="checkbox"/> Other _____   |

272\* **21. ADDITIONAL TERMS:** \_\_\_\_\_  
 273\* \_\_\_\_\_  
 274\* \_\_\_\_\_  
 275\* \_\_\_\_\_  
 276\* \_\_\_\_\_

277\* Buyer (IS) (\_\_\_\_\_) and Seller (S) (\_\_\_\_\_) acknowledge receipt of a copy of this page, which is Page 5 of 6 Pages.  
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302 **This is intended to be a legally binding contract. If not fully understood, seek the advice of an attorney prior to signing.**

303 **OFFER AND ACCEPTANCE**

304\* (Check if applicable:  Buyer received a written real property disclosure statement from Seller before making this Offer.)  
 305 **Buyer** offers to purchase the Property on the above terms and conditions. Unless this Contract is signed by **Seller** and a copy  
 306\* delivered to **Buyer** no later than 5  a.m.  p.m. on \_\_\_\_\_, 2010, this offer will be revoked  
 307 and **Buyer's** deposit refunded subject to clearance of funds.

308\* Date: 25 Aug 2010 Buyer: [Signature]  
 309\* Print name: Urban Transformation, LLC, Thomas Senatore

310\* Date: 25 Aug 2010 Buyer: [Signature]  
 311\* Phone: \_\_\_\_\_ Print name: Urban Transformation, LLC, Thomas Senatore  
 312\* Fax: \_\_\_\_\_ Address: 1202 SE 8th Place, Suite B  
 313\* E-mail: \_\_\_\_\_ Cape Coral, FL 33990 239-541-1517 wk 239-233-4067 cell

314\* Date: 8/27/10 Seller: [Signature]  
 315\* Print name: \_\_\_\_\_

316\* Date: \_\_\_\_\_ Seller: \_\_\_\_\_  
 317\* Phone: \_\_\_\_\_ Print name: \_\_\_\_\_  
 318\* Fax: \_\_\_\_\_ Address: \_\_\_\_\_  
 319\* E-mail: \_\_\_\_\_

320 **COUNTER OFFER/REJECTION**

321\*  **Seller** counters **Buyer's** offer (to accept the counter offer, **Buyer** must sign or initial the counter offered terms and deliver a copy  
 322\* of the acceptance to **Seller** by 5:00 p.m. on \_\_\_\_\_, \_\_\_\_\_).  **Seller** rejects **Buyer's** offer.

323\* **Effective Date:** \_\_\_\_\_ (The date on which the last party signed or initialed acceptance of the final offer.)

324\* **Buyer** () () and **Seller** () () acknowledge receipt of a copy of this page, which is Page 6 of 6 Pages.

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**IB PROPERTY HOLDINGS, LLC**

**ADDENDUM "A"**  
**FIRST ADDENDUM TO CONTRACT**

**IB PROPERTY HOLDINGS**  
**ASSET NUMBER:**

200037269

**Seller:** Bayview Loan Servicing LLC **Buyer(s):** Urban Transformation, LLC *Small*

5419 Second St Units 1-3 and 1910

**Street Address:** and 1912 Maple Drive

**City/State:** Ft Myers, FL 33907

In the event any provision of this First Addendum To Contract dated **August 26, 2010** ("First Addendum") conflicts in whole or in part with any of the terms of the contract between Buyer and Seller, as identified therein, ("the Contract"), the provisions of this First Addendum will control. Buyer shall neither assign its rights nor delegate its obligations hereunder without obtaining Seller's prior written consent, which may be withheld in Seller's sole discretion. In no event shall any assignment relieve Buyer from its obligations under this Contract. Any other purported or attempted assignment or delegation without obtaining Seller's prior written consent shall be void and of no effect.

**BUYER AND SELLER AGREE AS FOLLOWS:**

**(A) NO REPRESENTATION OR WARRANTIES: PROPERTY SOLD "AS IS."** Buyer acknowledges and understands that the Property (Property is herein defined to be the property and improvements, if any, which are the subject of the Contract) is being sold as-is, and with all faults. Buyer further acknowledges and understands that the Property was acquired by the Seller through a foreclosure action or loan liquidation procedure, and, therefore, the Seller was not an owner-occupant and its information concerning the Property and its condition is limited. Buyer is hereby informed that Seller is unaware of any latent defects in the Property or any appurtenant systems, including but not limited to plumbing, heating, air conditioning and electrical systems, fixtures, appliances, roof, sewers, septic, soil conditions, foundation, structural integrity, environmental condition, pool or related equipment. Seller makes no representations or warranties as to any of the above, the condition of the Property, the Property's systems, the serviceability or fitness for a particular use of the Property, or any component of the Property. Buyer agrees that in contracting to buy the Property, Buyer has not relied upon any representation or warranty made by the Seller, any parent, subsidiary or affiliate thereof, or any of its officers, directors, employees, agents or representatives. Buyer has been afforded the opportunity to undertake its own investigations and inspections of the Property.

**(B) PURCHASE PRICE.** Sale Price to be \$40,000.00, Earnest Money Deposit to be \$4,000.00 at the signing of contract and an additional deposit of \$0.00 upon the removal of all inspection contingencies at which time all deposit monies are considered to be non-refundable, with the exception of the financing contingency, if applicable. Time is of the essence with reference to the payment(s) of all escrow deposits. Balance of the purchase price in the amount of \$36,000.00 to be paid by wire transfer of readily available funds at closing.



**(C) FINANCING CONTINGENCY. (PLEASE INITIAL ONLY ONE PARAGRAPH, AS APPLICABLE)**

**(1) ( )/( ) Sale Contingent on Mortgage Financing**

(a) This contract is subject to the condition that on or before \_\_\_\_\_, Buyer shall secure, or there shall be available to Buyer, a written commitment for a loan to be secured by a mortgage or deed of trust on the property in the amount of \$\_\_\_\_\_, or such lesser sum as Buyer accepts.

(b) If, after the Buyer has submitted a true loan application and otherwise made every reasonable effort to procure a loan commitment from any source made available to Buyer within five (5) days from the date hereof and the Buyer has been unable to do so, and after serving written notice thereof upon Seller within one (1) business day of the time specified in subsection (C)(1)(a) above for securing such commitment, this Contract shall become null and void, and all moneys paid by Buyer hereunder shall be refunded. In the event Buyer does not serve notice of Buyer's failure to procure said loan commitment upon Seller as herein provided, then this contract shall continue in full force and effect without any loan contingencies.

(c) Buyer shall, at Buyer's expense, execute all documents necessary to procure a mortgage loan from any source. Any delays caused by Buyer's Lender shall not constitute a default by Seller.

(d) Mortgage interest rates, lender fees, and discount points vary with financial institutions and the marketplace on a daily basis. The Buyer has the right to select the Lender and the right to negotiate the financial terms and conditions of the loan. This may be subject to Seller's approval and/or Lender's requirements.

*Smear*  
**(2) ( )/( ) All Cash Transaction.** This is an all-cash sale and purchase, and is NOT contingent upon Buyer's obtaining Financing for the purchase of the Property regardless of any mortgage loan application made by the Buyer to any lending institution. Buyer understands and agrees that neither delivery of a commitment for a mortgage loan from any lending institution nor the Buyer's acceptance of such a commitment will in any way be a condition of Buyer's obligation under this Contract. Buyer represents to Seller that Buyer has sufficient readily available funds to complete the purchase of the Property.

**(D) CLOSING COSTS.** ~~Buyer agrees to pay all allowable closing costs on behalf of the Seller and Buyer, including the cost of a lender's title insurance policy, if applicable. Buyer understands that Buyer may also have to pay certain pre-payable expenses, including, but not limited to, adjustments for short-term interest, taxes, water and sewer charges, insurance, MIP or PMI. Buyer understands that if Buyer obtains an FHA or PMI mortgage, the MIP or PMI premium will be added to the mortgage amount and increase their monthly payment. Buyer shall also pay for the following: Buyer and Seller agree to pay their respective closing costs as is customary in Lee County Fl per Title Company general and published standards. Escrow and closing agent will be Attorney David J Schneid Phone #561-391-9141.~~ *Smear*



*Smear*

(E) **INSPECTIONS.** Buyer, at Buyer's sole cost and expense, and after Seller's written acceptance of this offer, shall have the opportunity to inspect the Property including, but not limited to, environmental, asbestos, radon gas, lead paint, physical defects including structural defects, roof, basement, mechanical systems such as heating and air conditioning, electrical systems, sewage and septic systems, plumbing, exterior site drainage, termite and other types of pest and insect infestation or damage caused by such infestation, and review and/or order a boundary survey. If Buyer does not give to Seller written notice of cancellation, for any reason Buyer deems appropriate, within ~~seven (7)~~ <sup>2 days</sup> calendar days of acceptance of this offer as outlined in paragraph (R), Buyer shall conclusively be deemed to have: (1) completed all inspections, investigations, review of applicable documents and disclosures and removed all contingencies; (2) elected to proceed with the transaction; and (3) assumed all liability, responsibility, and expense for repairs or corrections other than for items which Seller has otherwise agreed in writing to repair or correct. If Buyer objects to the condition of the Property within the specified time period, Buyer, as their sole option, may terminate this contract and neither party shall have any further obligations hereto. As a condition to termination under the inspection period, Buyer agrees to submit to Seller any and all written reports as to such inspections within three (3) calendar days following the expiration of the inspection period, after which time Seller will immediately refund the earnest money deposit.

(F) **REPAIRS.** The Property is being sold "as-is" and any repairs to the Property identified by Buyer or which may be any required by any lending institution to which Buyer may have applied ("Repairs") shall be the responsibility of the Buyer. The Seller will be under no obligation whatsoever to make any Repairs to the Property. Buyer agrees not to enter the Property prior to Closing for the purpose of making any repairs or alterations without Seller's express written consent.

(G) **LIQUIDATED DAMAGES-DEPOSIT.** NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THE CONTRACT, IF BUYER HAS NOT TERMINATED THE CONTRACT AND IF THE SALE OF THE PROPERTY TO BUYER HAS NOT BEEN CONSUMMATED FOR ANY REASON OTHER THAN SELLER'S DEFAULT UNDER THE CONTRACT, SELLER SHALL BE ENTITLED TO RETAIN THE DEPOSIT AS SELLER'S LIQUIDATED DAMAGES. THE PARTIES AGREE THAT IT WOULD BE IMPRACTICABLE AND EXTREMELY DIFFICULT TO ASCERTAIN THE ACTUAL DAMAGES SUFFERED BY SELLER AS A RESULT OF BUYER'S FAILURE TO COMPLETE THE PURCHASE OF THE PROPERTY PURSUANT TO THE CONTRACT, AND THAT UNDER THE CIRCUMSTANCES EXISTING AS OF THE DATE OF THE CONTRACT, THE LIQUIDATED DAMAGES PROVIDED FOR IN THIS SECTION REPRESENTS A REASONABLE ESTIMATE OF THE DAMAGES WHICH SELLER WILL INCUR AS A RESULT OF SUCH FAILURE, PROVIDED, HOWEVER, THAT THIS PROVISION SHALL NOT LIMIT SELLER'S RIGHT TO RECEIVE REIMBURSEMENT FOR ATTORNEY'S FEES, NOR WAIVE OR AFFECT SELLER'S RIGHT AND BUYER'S INDEMNITY OBLIGATIONS UNDER OTHER SECTIONS OF THE CONTRACT. THE PARTIES ACKNOWLEDGE THAT THE PAYMENT OF SUCH LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER. NOTWITHSTANDING THE FOREGOING, IF BUYER INTERFERES WITH OR MAKES ANY ATTEMPTS TO INTERFERE WITH SELLER RECEIVING OR RETAINING, AS THE CASE MAY BE, THE LIQUIDATED DAMAGES PROVIDED FOR IN THIS SECTION, INCLUDING WITHOUT LIMITATION, GIVING ANY NOTICE OR INSTRUCTION TO ESCROW HOLDER NOT TO DELIVER THE DEPOSIT TO SELLER, SELLER SHALL HAVE THE RIGHT TO ELECT TO RECOVER THE GREATER OF ITS ACTUAL DAMAGES OR THE LIQUIDATED DAMAGES BY GIVING WRITTEN NOTICE TO BUYER, AND SELLER SHALL HAVE ALL OTHER RIGHTS AND REMEDIES AGAINST BUYER PROVIDED AT LAW AND IN EQUITY. THE PARTIES HAVE SET FORTH THEIR INITIALS BELOW TO INDICATE THEIR AGREEMENT WITH THE DAMAGES PROVISION CONTAINED IN THIS SECTION.

  
SELLER'S INITIALS

  
BUYER'S INITIALS

(1) **No Specific Performance.** As material consideration to Seller's entering into the Contract with Buyer, Buyer expressly waives the (a) remedy of specific performance on account of Seller's default under the Contract, and (b) any right otherwise to record or file a *lis pendens* or a notice of pendency of action or similar notice against all or any portion of this Property.

(2) **No Contesting Liquidated Damages.** As material consideration to each party's agreement to the liquidated damages provisions stated above, each party hereby agrees to waive any and all rights, whatsoever to contest the validity of the liquidated damage provisions for any reason whatsoever, including, but not limited to, that such provision was unreasonable under circumstances existing at the time the Contract was made.

(H) **SELLERS CLOSING COSTS AND BROKERAGE COMMISSION. (APPLICABLE ONLY IF COMPLETED)** If necessary to complete a transaction, Seller will make the following contributions if the Property is single-family residential: (1) \$\_\_\_\_\_ to Buyers non-recurring closing costs and discount points; (2) \$\_\_\_\_\_ as a credit to Buyers at closing for a Buyer to purchase Home Protection Plan; (3) \$\_\_\_\_\_ maximum of Buyer's Non-allowable FHA/VA costs; and (4) \$\_\_\_\_\_ towards termite report. Any amount over Seller's contribution under this Section (1) or (2) are to be at the expense of the Buyer. Seller will pay a maximum commission of \$\_\_\_\_\_ or 6% to be split between Broker and Co-Broker, if applicable. The total commission earned will be based on a percentage of the Sales Price.

(I) **TRANSFER OF TITLE.** Seller will transfer title by means of a special or limited warranty deed, or an equivalent thereof (the "Deed"), which will warrant against acts of the grantor only. The acceptance of the Deed by the Buyer will be deemed to constitute full compliance by the Seller with all of the terms and conditions of the Contract and this First Addendum. None of the provisions of the Contract or the First Addendum will survive the delivery of the Deed.

(J) **INSURANCE POLICIES.** Seller's insurance policies are not transferable, and will not be prorated at Closing.

(K) **TITLE DEFECTS.** Seller shall have a minimum of thirty (30) days from the date upon which Seller receives a copy of a title insurance commitment or a title report within which to resolve any title exceptions or defects or other title issues which in any way impede or impair Seller's ability to convey title as required herein. If, within such thirty (30) day period, Seller determines that it is unable or unwilling, at its sole discretion, to resolve such matters then the Buyer (1) may take title in its then existing state, thereby waiving any title objections, or (2) terminate the Contract and receive a refund of any deposit as Buyer's sole and exclusive remedy. Seller's exercise of its right hereunder shall not require further notice thereof to the Buyer. In the event Seller fails to resolve such issues within the aforesaid thirty (30) day period, it shall be presumed that Seller has determined that it is unable or unwilling to resolve such issues

(L) **( )/( ) LEAD-BASED PAINT CONTINGENCY. (APPLICABLE IF INITIALED AND ONLY WITH REGARD TO SINGLE FAMILY RESIDENTIAL PROPERTY)** Buyer's obligation to close this transaction is contingent upon Buyer conducting a risk assessment or inspection of the Property for the presence of lead-based paint and/or lead-based paint hazards, at the Buyer's sole cost and expense, on or before 5 PM EST/EDT on that date ten (10) days from the Execution or Effective Date (the "LBP Test Period"). Intact lead-based paint that is in good condition is not necessarily a hazard (see the EPA pamphlet "Protect Your Family From Lead in Your Home" for more information). This contingency will terminate at the expiration of the LBP Test Period unless Buyer delivers to Seller written notice listing the specific existing deficiencies and corrections needed, together with a copy of the inspection and/or risk assessment report. Seller may, at Seller's sole discretion, within ten (10) days after delivery of the notice, elect in writing whether to correct the condition(s) prior to settlement. If Seller elects to correct the condition, Seller shall, upon completion of the correction(s), furnish to Buyer certification from a risk assessor or inspector demonstrating that the condition has been remedied. If Seller does not elect to make the repairs, or if Seller counter-offers, Buyer shall have five (5) days to respond to the counter-offer or remove this contingency and take the Property in "as is" condition or the Contract shall become void. Buyer may remove this contingency at any time without cause.

*Smc*

**(M) ( )/( ) WAIVER OF LEAD-BASED PAINT INSPECTION PERIOD: SELLER'S REPRESENTATION'S. (APPLICABLE IF INITIALED AND ONLY WITH REGARD TO SINGLE FAMILY RESIDENTIAL PROPERTY)**

Buyer acknowledges that it has had the opportunity to undertake studies, inspections or investigations of the Property as Buyer deemed necessary to evaluate the presence of lead-based paint and/or lead-based paint hazards on the Property. To the extent that Buyer has waived or otherwise declined the opportunity to undertake such inspections and investigations as a condition to the completion of the Closing under the terms of Paragraph (O), Buyer has knowingly and voluntarily done so. Buyer understands and acknowledges that the Property may have been built prior to 1978 and lead-based paint and/or lead-based paint hazards may be present on the Property. In accordance with Section 1018 of Title X, the Residential Lead-Based Paint Hazard Reduction Act of 1992, attached to this First Addendum as Exhibit "H" and made part hereof, Seller attaches the Disclosure of Information on Lead Based Paint and/or Lead-Based Paint Hazard Lead Warning Statement. Seller shall have no responsibility or liability with respect to any such occurrence of lead-based paint. It is understood by the parties that Seller does not make any representation or Warranty, express or implied, as to the accuracy or completeness of any information contained in Seller's files or in the documents produced by Seller or its agents, including, without limitation, any environmental audit or report. Buyer acknowledges that Seller and Seller's affiliates shall have no responsibility for the contents and accuracy of such disclosures, and Buyer agrees that the obligations of Seller in connection with the purchase of the Property shall be governed by the Contract irrespective of the contents of any such disclosures or the timing or delivery thereof.

**(N) CLOSING DATE/ TIME OF THE ESSENCE.** Closing date shall be August 31, 2010. It is agreed that time is of the essence with respect to all dates specified in the Contract and any addenda, riders or amendments thereto. This means that all deadlines are intended to be strict and absolute. In the event Buyer fails to close on the scheduled closing date through no fault of the Seller, Seller may, in its discretion, agree to extend the closing date. In the event Seller agrees to extend the closing date, Buyer shall pay, in addition to the Sale Price, a (1) \$300.00 fee for the extension, and (2) a per diem penalty of \$100.00 (\$150.00 per diem if this is a cash offer or the property is commercial property) for each day that the closing day is extended. In addition, there shall be a per diem penalty of \$20.00 deducted from the selling Broker's commission for each day that the closing is extended beyond the scheduled closing date. For Sale Prices greater than or equal to \$200,000.00, the fees are as follows: (1) \$600.00 fee for the extension, and (2) a per diem penalty of \$200.00 (\$300.00 per diem if this is a cash offer or the property is a commercial property) for each day that the closing day is extended. In addition, if the Sales Price is greater than or equal to \$200,000.00, there shall be a per diem penalty of \$40.00 deducted from the selling Broker's commission for each day that the closing is extended beyond the scheduled closing date.

Buyer assumes all liability in providing all necessary information to their Lender. Furthermore, Buyer shall instruct their Lender and attorney to work in conjunction with the brokers to ensure a timely close of escrow. The Broker and Co-Broker, if applicable, shall assume all responsibility for follow-up with the Buyer, any lender or mortgage representative involved in financing this transaction, and either party's attorney and/or title company to ensure that there is no delay in closing. Buyer will not be given possession, or may not occupy the premises prior to closing and disbursement of sale proceeds. Buyer shall be considered in default of the Contract in the event Buyer occupies or alters the Property or permits it to be altered unless provided for in the Contract.

**(O) TERMINATION OF CONTRACT.** In the event the Contract is terminated by Seller pursuant to any provision of the Contract, this First Addendum, any other addendum, or in the event Seller is otherwise unable to perform this Contract, Seller's sole liability to Buyer will be to return Buyer's deposit, at which time the Contract shall cease and terminate and Seller and Buyer shall have no further obligations, liabilities or responsibilities to one another.

**(P) REVIEW PERIOD.** Buyer and Seller agree that Seller shall require a forty-eight (48) hour review period for all closing documents, which shall commence upon Seller's receipt of same.



5419 2ND ST FT MYERS ADDENDUM A.DOC

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08/28/10



(Q) **SEVERABILITY.** If any provisions of this Addendum shall be prohibited by or invalid under applicable law, such provisions shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Addendum or the Sales Contract.

(R) **ACCEPTANCE OF OFFER.** Buyer is aware of the following: (1) Seller has reserved the right to make multiple counteroffers on this property; (2) Seller reserves the right to continue to offer the Property for sale until this offer has been formally accepted in writing; (3) acceptance of this offer or any counter-offers hereto is subject to Seller's Executive Committee's approval; (4) this offer shall expire on \_\_\_\_\_ at 5:00 PM EST/EDT. Any decision as to Buyer's acceptance of this offer shall be approved by Seller's Executive Committee on or before \_\_\_\_\_ at 5:00 PM EST/EDT. Seller's acceptance of another offer prior to Buyer's acceptance and communication of acceptance of this counter-offer to Seller or Seller's agent shall revoke this counter-offer. Communication of acceptance of this counter-offer must be received by Seller in writing prior to the expiration of the time frame specified above and may be in the form of a facsimile, e-mail, or hard copy via mail so long as receipt of delivery can be confirmed.

(S) **MISCELLANEOUS**

(1) **LIMITATION OF DAMAGES.** BUYER ACKNOWLEDGES, UNDERSTANDS AND AGREES THAT SELLER SHALL UNDER NO CIRCUMSTANCE BE RESPONSIBLE TO BUYER FOR ANY AMOUNT OF DAMAGES IN EXCESS OF THE AMOUNT OF THE DEPOSIT, AND UNDER NO CIRCUMSTANCE SHALL SELLER BE RESPONSIBLE OR LIABLE FOR ANY SECONDARY, CONSEQUENTIAL, COMPENSATORY OR PUNITIVE DAMAGES, INCLUDING BUT NOT LIMITED TO DAMAGES ASSOCIATED WITH THE INABILITY TO POSSESS THE RESIDENCE, UNINHABITABILITY, INCONVENIENCE OR LOSS OF TIME OR USE AS A RESULT OF DEFECTS. LIKEWISE, BUYER ACKNOWLEDGES, UNDERSTANDS AND AGREES THAT SELLER WILL HAVE NO LIABILITY FOR ANY LOSS OR DAMAGE TO BUYER DUE TO ANY RADON GAS OR OTHER HAZARDOUS MATERIALS OR SUBSTANCES, WHETHER NATURAL OR ARTIFICIAL, WHICH MAY BE LOCATED WITHIN THE SOIL OR SUBSURFACE ROCK WITHIN THE LOT OR WITHIN ANY PART OF: **PINE MANOR UNIT 1 BLK 5 PB 9 PG 134 LOTS 27 + 28** (property legal description), ANY AND ALL OF WHICH ARE HEREBY WAIVED AND FORGIVEN BY BUYER TO SELLER, WHETHER THEY NOW EXIST OR HEREAFTER ARISE.

(2) **Waiver of Jury Trial.** BUYER WAIVES THE RIGHT TO A JURY TRIAL IN ANY ACTION OR PROCEEDING BASED UPON OR RELATED TO ANY ASPECT OF THE PROPERTY IN CONNECTION WITH THIS CONTRACT, ANY DOCUMENT EXECUTED OR DELIVERED IN CONNECTION WITH THIS PURCHASE OR FOR ANY OTHER CLAIM RELATING TO OR BETWEEN THE PARTIES TO THIS CONTRACT OF WHATSOEVER KIND OR NATURE, INCLUDING (WITHOUT LIMITING THE GENERALITY OF THE FOREGOING) ANY AND ALL CLAIMS ARISING FROM, RELATED TO OR IN CONNECTION WITH INJURIES SUSTAINED IN CONNECTION WITH THE PROPERTY. BUYER MAKES THIS WAIVER KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY AND BUYER ACKNOWLEDGES THAT NO ONE HAS MADE ANY REPRESENTATION OF FACT TO INDUCE BUYER TO MAKE THIS JURY TRIAL WAIVER OR IN ANY MANNER OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. BUYER FURTHER ACKNOWLEDGES HAVING HAD THE OPPORTUNITY TO BE REPRESENTED BY INDEPENDENT LEGAL COUNSEL IN CONNECTION WITH THE TRANSACTION AND WITH RESPECT TO THIS CONTRACT AND IN THE MAKING OF THIS WAIVER SELECTED BY BUYER'S OWN FREE WILL AND THAT BUYER HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH SUCH COUNSEL. BUYER FURTHER ACKNOWLEDGES HAVING READ AND UNDERSTOOD THE MEANING AND RAMIFICATIONS OF THIS JURY TRIAL WAIVER AND FULLY INTENDS THAT THIS WAIVER SHALL BE READ AS BROADLY AS POSSIBLE AND SHALL EXTEND TO ANY AND ALL CLAIMS, DISPUTES, CAUSES OF ACTION, IN CONNECTION WITH THE PROPERTY, ANY INJURY, DAMAGE, OR ANY OTHER CLAIM ARISING AS A RESULT OF THIS TRANSACTION, THE PURCHASE OF THE PROPERTY, OR ANY MATTER RELATED THERETO.



(3) **Binding Nature.** This Contract shall be binding upon the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and, as permitted hereunder, assigns.

(4) **Attorneys' Fees.** Subject to the limitation upon damages recoverable by Buyer as set forth hereinabove, the prevailing party in connection with any litigation arising out of this Contract shall be entitled to recover all fees and costs incurred, including reasonable attorneys' fees, which reasonable attorneys' fees shall include but not be limited to paralegal and legal assistant fees and those reasonable attorneys' fees incurred by such prevailing party for the services of such prevailing party's attorney(s) at all judicial levels.

(5) **No Recording.** Buyer agrees that neither this Contract nor any notice or memorandum hereof shall be recorded in the Public Records of County or State where the Property is located or any other public records. Any such recording by Buyer or anyone acting by, through or under Buyer shall constitute a material breach by Buyer of this Contract and shall entitle Seller to invoke the default provisions hereof.

(6) **Entire Agreement.** This Contract represents the entire agreement of the parties hereto and supersedes any and all agreements and understandings between the parties hereto, whether oral or written. No statement, representation or other inducement made prior hereto, whether written or oral, unless included as a part of this Contract, shall be of any force or effect or may be relied upon by Buyer.

IB PROPERTY HOLDINGS, LLC

By: [Signature] CEO

Date: 8/27/10

[Signature]

Buyer: FOR URBAN TRANSFORMATION, LLC

Date: 26 AUGUST 2010

Buyer: \_\_\_\_\_

Date: \_\_\_\_\_

**Listing Broker: Mike Komar / Leffler & Associates PM Inc**

By: \_\_\_\_\_

Date: \_\_\_\_\_

**Selling Broker: None**

By: \_\_\_\_\_

Date: \_\_\_\_\_

**A. Settlement Statement**

and Urban Development

OMB No. 2502-0265

**B. Type of Loan**

<input type="radio"/> 1. FHA	<input type="radio"/> 2. FmHA	<input type="radio"/> 3. Conv. Unins.	<b>6. File Number</b> 8500.165	<b>7. Loan Number</b> ID:	<b>8. Mortg. Ins. Case Num.</b>
<input type="radio"/> 4. V.A.	<input type="radio"/> 5. Conv. Ins.				

**C. NOTE:** This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

**D. NAME OF BORROWER:** Urban Transformation, LLC, a Florida limited liability company  
**Address of Borrower:** 1202 SE 8th Place, Suite A, Cape Coral, Florida 33990

**E. NAME OF SELLER:** Bayview Loan Servicing, LLC, a Delaware Limited Liability Company  
**Address of Seller:** 4425 Ponce de Leon Boulevard, 5th Floor, Coral Gables, Florida 33146 **TIN:**

**F. NAME OF LENDER:**  
**Address of Lender:**

**G. PROPERTY LOCATION:** 5419 Second Avenue, Unit I-3, Fort Myers, Florida 33907

**H. SETTLEMENT AGENT:** The Law Offices of David J. Schneid, P.A. **TIN:** 65-0983375  
**Place of Settlement:** 6901 SW 18th Street, Suite E-301, Boca Raton, Florida 33433 **Phone:** 561-391-9141

**I. SETTLEMENT DATE:** 8/31/10 **DISBURSEMENT DATE:** 8/31/10

J. Summary of borrower's transaction		K. Summary of seller's transaction	
<b>100. Gross amount due from borrower:</b>		<b>400. Gross amount due to seller:</b>	
101. Contract sales price	40,000.00	401. Contract sales price	40,000.00
102. Personal property		402. Personal property	
103. Settlement charges to borrower (Line 1400)	478.50	403.	
104.		404.	
105.		405.	
<b>Adjustments for items paid by seller in advance:</b>		<b>Adjustments for items paid by seller in advance:</b>	
106. City/town taxes		406. City/town taxes	
107. County taxes		407. County taxes	
108. Assessments		408. Assessments	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
<b>120. Gross amount due from borrower:</b>	40,478.50	<b>420. Gross amount due to seller:</b>	40,000.00
<b>200. Amounts paid or in behalf of borrower:</b>		<b>500. Reductions in amount due to seller:</b>	
201. Deposit or earnest money	4,000.00	501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)		502. Settlement charges to seller (line 1400)	4,050.47
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204. Principal amount of second mortgage		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206.		506. Deposits held by seller	
207. Principal amt of mortgage held by seller		507. Principal amt of mortgage held by seller	
208.		508. 2009 RE Taxes \$803.33 POC	
209.		509.	
<b>Adjustments for items unpaid by seller:</b>		<b>Adjustments for items unpaid by seller:</b>	
210. City/town taxes		510. City/town taxes	
211. County taxes from 01/01/10 to 08/31/10	554.69	511. County taxes from 01/01/10 to 08/31/10	554.69
212. Assessments		512. Assessments	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
<b>220. Total paid by/for borrower:</b>	4,554.69	<b>520. Total reductions in amount due seller:</b>	4,605.16
<b>300. Cash at settlement from/to borrower:</b>		<b>600. Cash at settlement to/from seller:</b>	
301. Gross amount due from borrower (line 120)	40,478.50	601. Gross amount due to seller (line 420)	40,000.00
302. Less amount paid by/for the borrower (line 220)	(4,554.69)	602. Less total reductions in amount due seller (line 520)	(4,605.16)
303. Cash ( <input checked="" type="checkbox"/> From <input type="checkbox"/> To ) Borrower:	35,923.81	603. Cash ( <input checked="" type="checkbox"/> To <input type="checkbox"/> From ) Seller:	35,394.84

**Substitute Form 1099 Seller Statement:** The information contained in blocks E, G, H, and I and on line 401 is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this item is required to be reported and the IRS determines that it has not been reported.

**Seller Instructions:** If this real estate was your principal residence, file Form 2119, Sale or Exchange of Principal Residence, for any gain, with your tax return; for other transactions, complete the applicable parts of Form 4797, Form 6262 and/or Schedule D (Form 1040).

L. Settlement charges				Borrower	POC	Seller	POC	Paid from Borrower's Funds at Settlement	Paid from Seller's Funds at Settlement
700.	Total Sales/Brokers Com. based on price	\$40,000.00 @	6.0000 % =	2,400.00					
701.	2,400.00	6.0000 % to	Leffler & Associates						
702.		% to							
703.	Commission paid at settlement								2,400.00
704.		to							
800.	Items payable in connection with loan:				Borrower	POC	Seller	POC	
801.	Loan origination fee	% to							
802.	Loan discount	% to							
803.	Appraisal fee	to							
804.	Credit report	to							
805.	Lender's inspection fee	to							
806.	Mortgage insurance application fee	to							
807.	Assumption Fee	to							
808.		to							
809.		to							
810.		to							
811.		to							
900.	Items required by lender to be paid in advance:				Borrower	POC	Seller	POC	
901.	Interest from	to	@	/day					
902.	Mortgage insurance premium for	months to							
903.	Hazard insurance premium for	years to							
904.	Flood insurance premium for	years to							
905.		years to							
1000.	Reserves deposited with lender:				Borrower	POC	Seller	POC	
1001.	Hazard insurance	months @		per month					
1002.	Mortgage insurance	months @		per month					
1003.	City property taxes	months @		per month					
1004.	County property taxes	months @		per month					
1005.	Annual assessments	months @		per month					
1006.	Flood insurance	months @		per month					
1007.		months @		per month					
1008.		months @		per month					
1009.	Aggregate accounting adjustment								
1100.	Title charges:				Borrower	POC	Seller	POC	
1101.	Settlement or closing fee	to	The Law Offices of David J. Schneid, P.A.					350.00	
1102.	Abstract or title search	to	First American Title Insurance Company						100.00
1103.	Title examination	to							
1104.	Title insurance binder	to							
1105.	Document preparation	to							
1106.	Notary fees	to							
1107.	Attorney's Fees	to	The Law Offices of David J. Schneid, P.A.						550.00
	(includes above item numbers:		)						
1108.	Title Insurance	to	First American Title Insurance Company/David J. Schneid						230.00
	(includes above item numbers:		)						
1109.	Lender's coverage (Premium):								
1110.	Owner's coverage (Premium):	\$40,000.00 (\$230.00)							
1111.	Endorse:								
1112.	Overnight/Courier Fees/Shipping	to	The Law Offices of David J. Schneid, P.A.					55.00	
1113.	Document Storage fee	to	Document Nation					55.00	
1200.	Government recording and transfer charges:								
1201.	Recording fees	Deed	\$18.50 Mortgage(s)	Releases				18.50	
1202.	City/county tax/stamps	Deed	Mortgage(s)						
1203.	State tax/stamps	Deed	\$280.00 Mortgage(s)						280.00
1204.	Record Seller Affidavit	to	Lee County Clerk of the Court						95.00
1205.		to							
1300.	Additional settlement charges:				Borrower	POC	Seller	POC	
1301.	Survey	to							
1302.	Pest Inspection	to							
1303.	Lien/Estoppel Fee	to	American Lien & Estoppel Services						125.00
1304.	Outstanding Utilities	to	Lee County Utilities						270.47
1305.		to							
1306.		to							
1307.		to							
1308.		to							
1309.									
1400.	Total settlement charges:							478.50	4,050.47
	( Enter on lines 103, Section J and 502, Section K )								



## Residential Lease Agreement

**THIS LEASE AGREEMENT** is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, by and between \_\_\_\_\_, hereinafter referred to as "Landlord" and \_\_\_\_\_, hereinafter referred to as "Tenant".

**Property Address.** Landlord leases to Tenant and Tenant leases from Landlord, upon the terms and conditions contained herein, the dwelling located at \_\_\_\_\_ in the \_\_\_\_\_ County of \_\_\_\_\_.

**Lease Term.** (12) Twelve Months for the period commencing on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, and thereafter until the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_, at which time this Lease Agreement shall terminate. Landlord shall not be required to give tenant any notice to vacate after the expiration of the lease term. Tenant shall provide the landlord with 60 (sixty) days notice of intent to renew or to vacate the rental unit prior to the end of this lease.

**Rent.** Tenant shall pay as rent the sum of \$     .00 per month, *due and payable monthly, on the \_\_\_\_\_' day of the month for which rent is due.* Rent may be mailed through the United States Postal Service at Tenant's risk. Any rents late or lost in the mail will be treated as if unpaid until received by Landlord. It is expressly agreed that timely payments are of the essence. Tenant acknowledges that late payments of rent may cause Landlord to incur costs and expenses, the exact amount of such costs being extremely difficult and impractical to fix. Tenant agrees to pay a **late charge of \$35.00, plus \$5.00 per day for each day the entire rent is not received by the Landlord by the 5<sup>th</sup> day of the month regardless of the cause**, including dishonored checks, time being of the essence. Any payments received by landlord will be applied first towards late fees and/or other additional charges, then toward rent. An additional Service Charge of \$35.00 will be paid to Landlord for all dishonored checks. If any of tenant's checks are returned unpaid, landlord shall have the right to demand cash or certified funds on all future payments.

**Occupants.** Tenant agrees to use said dwelling as living quarters only for the persons stated above and their minor children, and agrees to pay \$ \_\_\_\_\_ each month for each additional person who shall occupy the premises in any capacity. Failure to comply with this paragraph shall be a complete and material breach of the lease.

**Pets.** No pets are permitted on the property under this Lease shall be presumed to be strays and will be disposed of by the appropriate agency as prescribed by law. Any pets kept on the property without the permission of the landlord in writing shall be a complete and material breach of the lease.

**No Assignment.** Tenant agrees not to assign this Lease, nor to sublet any portion of the property, nor did to allow any other person to live therein other than as name in above without first obtaining express written permission from Landlord and paying the appropriate surcharge. Consent by Landlord to one assignment or subletting shall not be deemed to be consent to any subsequent assignment or subletting. Further, it is agreed that covenants contained in this Lease, once breached, cannot afterward be performed, and that unlawful detainer proceedings may be commenced at once, without notice to Tenant.

**Enforceability.** Should any provision of this Lease be found to be invalid or unenforceable, the remainder of the Lease shall not be affected thereby and each term and provision herein shall be valid and enforceable to the fullest extent permitted by law.

**No Waiver.** All rights given to Landlord by this Lease shall be cumulative to any other laws that might exist or come into being. Any exercise or failure to exercise by Landlord of any right shall not act as a waiver of any other rights. No statement or promise of Landlord or his agent as to tenancy, repairs, alterations, or other terms and conditions shall be binding unless reduced to writing and signed by Landlord.

**Utilities.** Tenant will be responsible for payment of all utilities, telephone, gas, water, electric or other bills incurred during the term of this Lease. Appliances in the unit are offered in their "as is" condition and not guaranteed. If tenants wish to use the appliances, they agree to assume all responsibility for care and maintenance. The landlord shall be responsible for garbage, association fees and yard maintenance only.

**Pest Control.** Resident is responsible for any ongoing pest control service within the unit if the Resident desires such a service. Owner is not responsible for any damage done to the Resident's person, or property by such pests, or to the person or property of Resident's family or any other persons on the premises.

**Access.** Landlord has the right of access to the leased premises during reasonable hours to inspect the property or, at reasonable times, to show property to a prospective tenant, purchaser or mortgagee. Tenants agree that they will not change the locks on any door at any time, removing of locks will be a violation of the lease and a charge of \$150 per lock shall be charged if prior permission is not obtained. Having obtained permission, they agree to pay for changing the locks themselves and to provide the Owners with one duplicate key per lock and to use the landlords locksmith.

**Insurance.** The Tenant is hereby advised and understands that the personal property of the Tenant is not insured by the Landlord for either damage or loss, and the Landlord assumes no liability for any such loss. The Tenant is advised that, if insurance coverage is desired by the Tenant, the Tenant should inquire of Tenant's insurance agent regarding a Renter's Policy of Insurance.

**Tenant Initials** \_\_\_\_\_

**Repairs.** In exchange for tenant receiving a discounted rent, Tenant shall be responsible for all repairs, maintenance, costs, service charges, painting, improvements and additions to the property. Landlord will not be responsible for any repairs except as required by landlord under local, state or federal law. Tenant shall take an active role to insure that the property stays in excellent condition. Tenant agrees that he/she has had adequate opportunity to inspect the condition of the property and Landlord makes no warranties or representations about the condition of the property, the improvements, utilities, electrical, plumbing, appliances or any latent defects of property, the improvements, utilities, electrical, plumbing, appliances or the neighborhood. Tenant has the right to paint and decorate the property in his discretion within tasteful guidelines. Tenant will not to make any major alterations to the property without prior written consent of the Landlord. Tenant is required to obtain all necessary permits required by law before commencing improvements. Any work performed on the premises whether by Tenant or other parties shall be as an independent contractor or agent of the tenant and not an employee or agent of Landlord. Landlord will have no right of supervision of the work performed. Tenant further warrants that he will be accountable for any mishaps and/or accidents resulting from such work, and will defend, indemnify and hold the Landlord and Landlord's agents free from claims of any other person or entity. All improvements to the property shall be the property of the Landlord and remain attached and a part of the property when tenant vacates. Tenant shall receive no compensation, credit or rent reduction for work performed and tenant waives any lien for work or materials under applicable state law. Any damage to the property or the apartment due directly or indirectly by the tenant shall be the exclusive responsibility of the tenant and must be repaired by the tenant at the tenants cost. Failure to comply with this paragraph shall be a complete and material breach of the lease.

**Default.** To further clarify the terms of the lease, the *Tenant shall make certain that rent is received by the Landlord before the 1<sup>st</sup> (first) day of the month. A notice of non-payment will be served on the tenant if rent is not received by the 5<sup>th</sup> (fifth) of the month, regardless of fault of the tenant or the U.S. Postal Service. Notwithstanding the foregoing, the lease will be deemed materially and incurably breached and terminated if the rent and/or any additional rent is not paid by the fifteenth of any month for which rent is due.* The acceptance by Landlord of partial payments of rent due shall not, under any circumstances, constitute a waiver of Landlord, nor affect any notice or legal proceeding in unlawful detainer theretofore given or commenced under state law. If tenant defaults on any other provisions of the lease, including, but not limited to any misrepresentations on tenant's application, Landlord, at his option, can elect to continue the lease or terminate the lease and take possession by any lawful means. Landlord is not required to give any notice to cure a violation of the lease other than as required by law.

**Obligations of Persons Under This Lease.** If more than one person signs this Lease, each person is fully and personally obligated to keep all of the promises made in this Lease, including the promise to pay the full amount owed. The Lease Holder may enforce its rights under this Lease against each person individually or against all tenants. This means that any one of us may be required to pay all of the amounts owed under this Lease.

**Ordinances & Statutes.** Tenant shall comply with all municipal, state and federal law, statutes and ordinances, homeowner's association rules, covenants, conditions and restrictions now in effect, or which shall be enacted in the future, and any violation thereof shall be a complete and material breach of the lease.

**Legal Action.** Tenant agrees, without protest, to reimburse Landlord for all actual and reasonable expenses incurred by way of Tenant's violation of any term or provision of this lease, including, but not limited landlord's expenses in serving a Notice to Pay, Notice to Quit or other notice mailed or delivered by Landlord to Tenant due to Tenant's non-payment of rent or other breach of lease, all court costs and attorney's fees and all costs of collection. Any such costs shall be due immediately as "additional rent." Any payments received by landlord will be applied first towards late fees and/or other additional charges, then toward rent.

**Waiver of Claims.** Tenant hereby waives any and all right to assert affirmative defenses or counterclaims in any eviction action instituted by Landlord with the exception of an affirmative defense based upon payment of all amounts claimed by Landlord not to have been paid by Tenant. Other matters may only be advanced by Tenant in a separate suit



with 12 months from the date the tenant vacates the property.

**Damage by Fire.** In the event that the building is damaged by fire and through no fault of the tenant, and cannot be restored within a reasonable time in the opinion of the Landlord, this lease shall terminate with no further liability of either party.

**Merger clause.** This agreement shall constitute the full and complete understanding of the parties and supersedes all prior written and oral agreements. There shall be no further additions or changes unless the same is reduced to writing.

**Quiet Enjoyment.** Quiet enjoyment includes the right of the tenant and others who reside on the property if said unit is a multi-family dwelling to have the right to peace and quiet, the right to clean premises, and the right to basic services such as water and electric being supplied to the building(s). Conduct himself and require other persons on the premises with his consent to conduct themselves in a manner that will not disturb his neighbor's peaceful enjoyment of the premises.

**Occupancy.** Tenant to Maintain dwelling unit as follows:

1. Comply with all obligations primarily imposed upon tenant by applicable provisions of building codes materially affecting health and safety.
2. Keep that part of the premises that he occupies and uses as clean and safe as the condition of the premises permit.
3. Dispose from his dwelling unit all rubbish, garbage, and other waste in a clean and safe manner.
4. Keep all plumbing fixtures in a dwelling unit or used by the tenant as clean as its condition permits.
5. Use in a reasonable manner all electrical, plumbing, sanitary, heating, ventilating, air-conditioning, and other facilities and appliances including elevators in the premises.
6. Not deliberately or negligently destroy, deface, damage, impair, or remove any part of the premises or knowingly permit any person to do so.

**Tenant Initials** \_\_\_\_\_

**Full Disclosure.** The Tenant signing this Rental Contract hereby state that all questions about this Rental Agreement have been answered, that they fully understand all the provisions of the agreement and the obligations and responsibilities of each party, as spelled out herein. They further state that they agree to fulfill their obligations in every respect or suffer the full legal and financial consequences of their actions or lack of action in violation of this agreement. Signature by the Tenant on this Rental Agreement is acknowledgment and he/she has received a signed copy of the Rental Agreement.

**City, County, or State Violations.** Tenant is responsible for paying all violation fees issued against the house (or apartment if a multi-family dwelling) by the city, county or state for non-compliance to city, county or state laws. If the landlord is required to appear in court, tenant shall pay an additional \$350 fee to compensate landlord for his time.

**Additional Terms:**

Accepted this \_\_\_\_ day of \_\_\_\_\_.

\_\_\_\_\_  
*Tenant*

\_\_\_\_\_  
*Tenant*

## Exclusive Property Management Agreement

FLORIDA ASSOCIATION OF REALTORS®



This Exclusive Property Management Agreement ("Agreement") is between \_\_\_\_\_

\_\_\_\_\_, ("Owner") and

Ocean Wave Realty

\_\_\_\_\_, ("Broker")

**1. AUTHORITY TO MANAGE PROPERTY:** Owner gives Broker the EXCLUSIVE RIGHT TO MANAGE the real and personal property (collectively "Property") described below beginning the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ ending at 11:59 p.m. the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, except that either party may terminate this Agreement by giving \_\_\_\_\_ calendar days written notice to the other party by certified mail. Owner certifies and represents that he/she has the legal authority and capacity to lease the Property and improvements.

### 2. DESCRIPTION OF PROPERTY:

(a) Real Property: Street Address: \_\_\_\_\_

(b) Legal Description:  See Addendum \_\_\_\_\_, Legal Description of Real Property.

\_\_\_\_\_

(c) Personal Property, including appliances:  See Addendum \_\_\_\_\_, Inventory.

\_\_\_\_\_

(d) Type of Property (single family home, warehouse, etc.): \_\_\_\_\_

(e) Occupancy: Property  is  is not currently occupied by a tenant. If occupied, the lease term expires \_\_\_\_\_.

**3. BROKER OBLIGATIONS AND AUTHORITY:** Broker will use due diligence to manage, operate and lease the Property in accordance with this Agreement.

(a) Tenant Matters: Owner authorizes Broker to (check if applicable):

- Secure a tenant for the Property, see Addendum \_\_\_\_\_, Exclusive Right to Lease Agreement.
- Enter into a lease/contract to lease on Owner's behalf (Owner must execute special power of attorney).
- Complete and sign the lead-based paint/hazards certification on Owner's behalf (for Property built before 1978).
- Manage tenant relations, including negotiating renewals of existing leases; collecting, holding and disbursing rents and other amounts due or to become due to Owner; handling tenant requests and negotiations; terminating tenancies and signing and serving appropriate notices on behalf of Owner; initiating and prosecuting eviction and damages actions on behalf of Owner; and procuring legal counsel when necessary to protect Owner's interests and rights in connection with the Property.

(b) Property Maintenance: Owner understands that Florida law requires licensed professionals in the construction trades to perform relevant repairs on rental properties unless the repairs can be made for under \$1,000 and are not of a life/safety concern. Additionally, Owner understands that when Broker acts as the Owner's agent Florida law provides the Broker may contract for repairs, maintenance, remodeling or improvement of the Property with a certified or registered contractor when labor and materials together do not exceed \$5,000. Subject to these limitations set by law, Owner authorizes Broker to (check if applicable):

- Maintain and repair interior, exterior and landscaping of Property, including making periodic inspections; purchasing supplies; and supervising alterations, modernization and redecoration of Property. Broker will obtain prior approval of Owner for any item or service in excess of \$\_\_\_\_\_, except for monthly or recurring expenses and emergency repairs which, in Broker's opinion are necessary to prevent the Property from becoming uninhabitable or damaged, to avoid suspension of services required to be provided by law or lease, or to avoid penalties or fines to be imposed by a governmental entity.
- Enter into contracts on Owner's behalf for utilities, public services, maintenance, repairs and other services as Broker deems advisable.
- Hire, discharge and supervise all labor and employees required for the operation and maintenance of the Property, and to arrange for bonding for employees who will handle cash on behalf of Owner and Broker.

(c) Other Matters: Owner authorizes Broker to (check if applicable):

- Make payments on Owner's behalf, including (check all that apply):
  - mortgage \$\_\_\_\_\_ per \_\_\_\_\_ to \_\_\_\_\_
  - insurance \$\_\_\_\_\_ per \_\_\_\_\_ to \_\_\_\_\_
  - property taxes \$\_\_\_\_\_ per \_\_\_\_\_ to \_\_\_\_\_ and special assessments as made.
  - condominium or homeowners' association dues \$\_\_\_\_\_ per \_\_\_\_\_ to \_\_\_\_\_ and assessments as made.
  - charges for repairs, materials, equipment, labor and attorneys' fees and costs.
  - state and local sales and service taxes.

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- Maintain accurate records of receipts, expenses and accruals to **Owner** in connection with managing the Property. **Broker** will render to **Owner** itemized financial statements (how often) \_\_\_\_\_

and will promptly remit to **Owner** the balance of receipts less disbursements and accruals for future expenses.

- Other Duties: See **Addendum** \_\_\_\_\_, entitled \_\_\_\_\_.

**4. OWNER OBLIGATIONS:** In consideration of the obligations of **Broker**, **Owner** agrees:

- (a) To cooperate with **Broker** in carrying out the purpose of this Agreement.
- (b) To provide **Broker** with the following keys to the Property (specify number): unit \_\_\_\_/ building access \_\_\_\_/ mailbox \_\_\_\_/ pool \_\_\_\_/ garage door/opener \_\_\_\_/ other \_\_\_\_\_
- (c) To provide complete and accurate information to **Broker** including disclosing all known facts that materially affect the value of the Property (see **Addendum** \_\_\_\_\_, entitled \_\_\_\_\_). If the Property was built in 1977 or earlier, **Owner** will provide **Broker** with all information **Owner** knows about lead-based paint and lead-based paint hazards in the Property and with all available documents pertaining to such paint and hazards, as required by federal law. **Owner** understands that the law requires the provision of this information to **Broker** and to prospective tenants before the tenants become obligated to lease the Property. **Owner** acknowledges that **Broker** will rely on **Owner's** representations regarding the Property when dealing with prospective tenants.
- (d) To carry, at **Owner's** sole expense, public liability, property damage and worker's compensation insurance adequate to protect the interests of **Owner** and **Broker**. Said insurance will name both **Broker** and **Owner** as insured parties, and will specifically cover the indemnity and hold harmless provision of subparagraph 4(h). **Broker** will not be liable for any error of judgment or mistake of law or fact or for any loss caused by **Broker's** negligence, except when the loss is caused by **Broker's** willful misconduct or gross negligence. **Owner** will carry insurance as follows:
  - (1) Perils of fire, lightning, wind, hail, explosion, smoke, riot, aircraft, vehicles, vandalism, and burglary on the contents of the Property in the amount of \$\_\_\_\_\_.
  - (2) "At Risk" protection on the building in the amount of \$\_\_\_\_\_, and on rental income in the amount of \$\_\_\_\_\_.
  - (3) Liability for personal injury and property damage in the amount of \$\_\_\_\_\_ (\$500,000 minimum).
- (e) To inform **Broker** before conveying or leasing the Property.
- (f) Upon termination of this Agreement, to assume obligations of all contracts that **Broker** entered into on **Owner's** behalf.
- (g) To pay all amounts billed by **Broker** for authorized expenditures within \_\_\_\_ calendar days after written notice of the expense is placed in the mail by **Broker**. If **Owner** fails to promptly reimburse **Broker**, **Owner** authorizes **Broker** to reimburse itself out of rents collected, if applicable.
- (h) To indemnify and hold harmless **Broker** and **Broker's** officers, directors, agents and employees from all claims, demands, causes of action, costs and expenses, including reasonable attorneys' fees at all levels, and from liability to any person, to the extent based on (1) **Owner's** misstatement, negligence, action, inaction or failure to perform the obligations of this contract or any lease or agreement with a vendor; (2) the existence of undisclosed material facts about the Property; (3) **Broker's** performance, at **Owner's** request, of any task beyond the scope of services regulated by Chapter 475, F.S., as amended, including **Broker's** referral, recommendation or retention of any vendor; or (4) services or products provided and expenses incurred by any vendor. This subparagraph will survive **Broker's** performance and the transfer of title.
- (i) To reasonably inspect the Property before allowing the tenant to take possession and to make the repairs necessary to transfer a reasonably safe dwelling unit to the tenant.
- (j) To exercise reasonable care to repair dangerous defective conditions upon notice of their existence by the tenant, after the tenant takes possession.

**5. COMPENSATION:** **Owner** agrees to compensate **Broker** as follows, plus any applicable taxes on **Broker's** services:

- (a) For securing a tenant, see **Addendum** \_\_\_\_\_, Exclusive Right to Lease Agreement.
- (b) For managing tenant relations, a fee of:
  - \_\_\_\_\_% of the gross lease value
  - \_\_\_\_\_% of rent due in each rental period
  - \$\_\_\_\_\_
  - other \_\_\_\_\_The above fee is to be paid (when, how) \_\_\_\_\_
- (c) For managing the Property, a fee of:
  - \$\_\_\_\_\_ to be paid (when, how) \_\_\_\_\_
  - \_\_\_\_\_% of rent due in each rental period to be paid (when, how) \_\_\_\_\_
  - other \_\_\_\_\_
- (d) For supervising alterations, modernization, redecorating, or repairs above and beyond normal refurbishment of the Property, a fee of  \$\_\_\_\_\_ per hour OR  \_\_\_\_\_ to be paid (when, how) \_\_\_\_\_.
- (e) Other:  See **Addendum** \_\_\_\_\_, Attachment to Property Management Agreement.

**6. DISPUTE RESOLUTION:** This Agreement will be construed under Florida law. All disputes between **Broker** and **Owner** based on this Agreement or its breach will be mediated under the rules of the American Arbitration Association or other mediator agreed upon by the parties. Mediation is a process in which parties attempt to resolve a dispute by submitting it to an impartial mediator who facilitates the

resolution of the dispute but who is not empowered to impose a settlement on the parties. The parties will equally divide the mediation fee, if any. In any litigation based on this Agreement, the prevailing party will be entitled to recover reasonable attorneys' fees and costs at all levels, unless the parties agree that disputes will be settled by arbitration as follows:

**Arbitration:** By initialing in the space provided, **Owner** (\_\_\_\_) (\_\_\_\_), Listing Associate (\_\_\_\_) and Listing Broker (\_\_\_\_) agree that disputes not resolved by mediation will be settled by neutral binding arbitration in the county in which the Property is located in accordance with the rules of the American Arbitration Association or other arbitrator agreed upon by the parties. The arbitrator may not alter the Contract terms. Each party to any arbitration or litigation (including appeals and interpleaders) will pay its own fees, costs and expenses, including attorneys' fees at all levels, and will equally split the arbitrators' fees and administrative fees of arbitration.

**7. ATTORNEYS' FEES:** In any action between **Owner** and a tenant in which **Broker** is made a party because of acting as an escrow agent under this Agreement, or if **Broker** interpleads escrowed funds, **Broker** will recover reasonable attorneys' fees and costs, to be paid out of the escrowed funds and charged and awarded as court costs in favor of the prevailing party.

**8. MISCELLANEOUS.** This Agreement is binding on **Broker's** and **Owner's** heirs, personal representatives, administrators, successors and assigns. Signatures, initials, documents referenced in this Agreement, counterparts and modifications communicated electronically or on paper will be acceptable for all purposes and will be binding.

**9. ADDITIONAL CLAUSES:**

**Broker advises Owner to consult an appropriate professional for related legal, tax, property condition, environmental, foreign reporting requirements and other specialized advice.**

Date: \_\_\_\_\_ **Owner:** \_\_\_\_\_ Tax ID/SSN: \_\_\_\_\_

Date: \_\_\_\_\_ **Owner:** \_\_\_\_\_ Tax ID/SSN: \_\_\_\_\_

Home Telephone: \_\_\_\_\_ Work Telephone: \_\_\_\_\_ Facsimile: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_ E-mail: \_\_\_\_\_

Date: \_\_\_\_\_ **Authorized Licensee or Broker:** \_\_\_\_\_

Home Telephone: \_\_\_\_\_ Work Telephone: \_\_\_\_\_ Facsimile: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_ E-mail: \_\_\_\_\_

Copy returned to **Owner** on the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ by:  personal delivery  mail  facsimile

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# State by state tax liens and deeds

## Background

Each state has its own way of handling tax liens and deeds. To assist you in understanding the rules, we have compiled a snapshot overview.

Please note that the list is subject to change, so make sure you complete your own inquiries before taking action.

## Terms

Here's a quick glossary of the terms you'll find in the state by state matrix.

## Type

This is the type of lien/deed product available in that state. Options include:

- Lien:** Tax liens are available for sale. If a lien has not been repaid by the end of the redemption period then the property deed becomes transferrable.
- Deed:** You have purchased the deed to the property and the property is now yours outright. In this case, the lien is held by the county which then sells the deed in due course if the property owner has not repaid.
- Lien and deed:** In the first instance, the lien is sold at public auction. Then, if the lien is not redeemed by the due date, the deed is sold at public auction with the proceeds going to repay the lien holder. If the lien has been sold to an investor but the deed did not sell at auction, then the deed is transferrable to the investor.
- Redeemable deed:** The deed to the property is sold, but the original property owner has a finite time to redeem their deed. After that date there is no further recourse available.

## Redemption periods

This is the available time (in months) that the (original) property owner has to either redeem (pay off) the tax lien and / or tax deed.

## Bid type

- Highest bidder:** The starting bid is the amount of taxes owed (or the opening bid if it is a deed auction). Investors then bid up the price with the highest price being the winner. The amount in excess of the opening bid goes to the county or city.
- Bid down the interest rate:** The opening bid on the tax lien is the maximum amount prescribed by the state, and then investors bid down that interest rate with the lowest bid being the winner (who then has to pay the amount of the tax debt outstanding and receives their bided interest rate as a return).

## State by state tax liens and deeds (cont'd)

- Bulk sales:** The county/city sells off an entire list instead of individual liens or deeds.
- Bid down ownership:** Instead of bidding for the deed, you are bidding on the percentage ownership you would like to take in the property.
- Rotational:** Starting at the front of the room, the county representative gives everyone in the room the opportunity to acquire the lien/deed.
- First come:** Each person is allocated a bidder card or bidder number and the first person to raise it once the property is announced is the winner.
- Random/lottery:** Each person is allocated a bidder card or bidder number, and one is drawn at random. That person has the opportunity to buy if they so wish, otherwise it passes to the next drawn person.



STATE	TYPE	REDEMPTION PERIODS (MONTHS)	INTEREST RATE	CITIES/COUNTIES	BID TYPE
Alabama	Lien	36	12%	42	Highest Bidder
Arizona	Lien	36	16%	15	Bid Down Interest
Colorado	Lien	36	9% above discount rate	64	Highest Bidder
District of Columbia	Lien	6	18%	1	Highest Bidder
Illinois	Lien	24	18% penalty	102	Bid Down Interest
Indiana	Lien	12	10%/1-6 mo., 15%/6-12 mo., then 25%	92	Highest Bidder
Iowa	Lien	21	2% penalty per month	99	Bid Down Interest
Kentucky	Lien	12	12%	120	Highest Bidder
Louisiana	Lien	36	5% penalty + 1% mo., then 12%	64	Bid Down Ownership
Maryland	Lien	6	6%-14%	23	Highest Bidder
Michigan	Lien	24	6%-14% depending on county	83	Highest Bidder
Mississippi	Lien	24	17%-18%	82	Highest Bidder
Missouri	Lien	12	10%	136	Highest Bidder
Montana	Lien	24-36	10%, 2% penalty	56	First Come / Random
Nebraska	Lien	24	14%	93	Rotation Bid
New Jersey	Lien	21	18% max	567	Bid Down Interest
Ohio	Lien	12	18%	86	Highest Bidder
Oklahoma	Lien	12	10%	77	First Come / Random
South Carolina	Lien	12	3% per quarter, then 1% per mo.	46	Highest Bidder
South Dakota	Lien	36-48	10% max	66	Bid Down Interest
West Virginia	Lien	12	12%	55	Highest Bidder
Wyoming	Lien	48	8%, then 155 plus 3%	23	Highest Bidder

STATE	TYPE	REDEMPTION PERIODS (MONTHS)	INTEREST RATE	CITIES/COUNTIES	BID TYPE
Alaska	Lien & Deed	12	15%	12	Highest Bidder
Florida	Lien & Deed	24	18% max	67	Bid Down Interest
Massachusetts	Lien & Deed	24	16%	14	Bulk Sales
Nevada	Lien & Deed	24	10%	17	Random Drawing/ Highest Bidder
New York	Lien & Deed	24	3% penalty	62	Highest Bidder

STATE	TYPE	REDEMPTION PERIODS (MONTHS)	INTEREST RATE	CITIES/COUNTIES	BID TYPE
Arkansas	Deed	None	None	75	Highest Bidder
California	Deed	None	None	58	Highest Bidder
Idaho	Deed	None	None	44	Highest Bidder
Kansas	Deed	None	None	105	Highest Bidder
Maine	Deed	None	None	492	Highest Bidder
Minnesota	Deed	None	None	87	Highest Bidder
New Mexico	Deed	None	None	32	Highest Bidder
North Carolina	Deed	None	None	109	Highest Bidder
North Dakota	Deed	None	None	53	Highest Bidder
Pennsylvania	Deed	None	None	64	Highest Bidder
Utah	Deed	None	None	29	Highest Bidder
Virginia	Deed	None	None	93	Highest Bidder
Washington	Deed	None	None	39	Highest Bidder
Wisconsin	Deed	None	None	72	Highest Bidder

STATE	TYPE	REDEMPTION PERIODS (MONTHS)	INTEREST RATE	CITIES/COUNTIES	BID TYPE
Connecticut	Redeemable Deed	12	18%	8	Highest Bidder
Delaware	Redeemable Deed	12	15%	3	Highest Bidder
Georgia	Redeemable Deed	12	20% penalty	159	Highest Bidder
Hawaii	Redeemable Deed	12	12%	4	Highest Bidder
New Hampshire	Redeemable Deed	24	18%	10	Highest Bidder
Oregon	Redeemable Deed	24	5% penalty + 1% mo. Then 12%	39	Highest Bidder
Rhode Island	Redeemable Deed	12	10% penalty per 6 mo.	5	Bid Down Interest
Tennessee	Redeemable Deed	12	10%	95	Highest Bidder
Texas	Redeemable Deed	12	25% penalty	256	Highest Bidder
Vermont	Redeemable Deed	12	12%	14	Highest Bidder