

New Special Confidential Report #2

“How To Negotiate So Well, Sellers Will Just About Give You Their Property...And Walk Away Happy They Did It!”

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In this report you'll discover:

- **3 simple steps to guarantee you get all you can out of every deal**
- How to make the seller an offer that is “too good” to refuse
- **Incredibly simple ways to convert stubborn sellers to putty in your hands (one investor in 10,000 knows about these techniques)**
- How to create a powerful pre-negotiation checklist that brings you success 98.7% of the time.
- **Highly unconventional... yet highly successful ways to turn a deal into a steal**

Dear Friend,

One of the most frightening decisions you will have to make when investing in real estate is making the offer on a property. In this special report I'm going to reveal to you the secrets of unconventional yet powerful negotiation. I'm going to show you some of the simplest steps you can take to massively boost your success in getting the seller to agree to your every desire. After reading this report full of powerful tips that 96% of seasoned investors don't know, you will be able to gain thousands of extra dollars of profit on each purchase.

As you read along, make sure you pay very close attention. If you miss a single step it could mean the difference of gaining or losing thousands maybe even millions of dollars in your investment career. I strongly suggest that you practice these techniques on your family and friends until you can negotiate in your sleep. This is because once the negotiations begin, you will not have time to run back to this report.

So, sit back, relax and let the negotiations begin!

Step #1 - Gathering Intelligence

Sun Tzu the great Chinese general once said, "know your enemy and know yourself, and in one thousand battles you will never peril. When you are ignorant of the enemy but know yourself, your chances of winning or losing are equal. If ignorant both of your enemy and yourself, you are certain, in every battle to be in peril." Planning a negotiation is very much like planning a battle. In order to be successful in battle or in negotiations you must first gather as much intelligence as possible. Only then can you create an effective strategy for winning. There are three main areas where intelligence must be gathered when it comes to negotiating a real estate deal. They are:

1. Gathering as much information as possible on the property
2. Gathering as much information as possible on the seller
3. Gathering as much information as possible on yourself and your allies

Gathering Information on the Property

You should know every detail about a property before you even consider making an offer on it. There are multiple ways to gather information on the property. Here are some of the best ways:

1. **Observation** - When considering purchasing a property, it is important that you have first hand observation of that property. As an investor, you cannot afford to rely solely on the observations of others. You should go through the property with a fine toothed comb to find all flaws and problems that need correcting. Always bring a small flashlight and insist on access to every part of the property. Be sure to open up cabinets and closets to see if there is water damage. Some sellers will paint over damage on the ceiling, but almost never cover water damage in the top of cabinets and closets. Another important thing to check for is how the neighborhood is at different times during the day and night. Go during working hours and see

how many people are outside instead of at work or school. Check at night and see if there are noisy neighbors or shady people hanging out.

2. **An Engineer/Inspector** - There are certain things that if missed by the untrained eye can end up costing tens of thousands of dollars. In order to make sure the roof, plumbing, wiring and overall structure of a property are sound, you must hire an engineer to inspect the property. This is an indispensable part of gathering intelligence. Whatever the engineer's findings are, will help determine the dollar amount you offer the seller. Armed with the engineer's report, you have considerably stacked the odds of successfully getting what you want out of the negotiation.

3. **A Contractor** - If the engineer determines that the property will require repairs, it is imperative that you bring in a licensed contractor to observe the damage and give an estimate of how much it will cost to bring the property to a satisfactory condition. This will also add tremendous weight to your negotiating position.

4. **The Seller** - If you ask the seller, they will often bring up all of the best features of the property and down play the negative parts of the property, but if you continue to ask the right questions, the truth often reveals itself. Ask about the property, the neighborhood, the expenses, maintenance, recent or major repairs, the tenants, utilities, liens, judgments, fires, floods, break ins, current mortgage, taxes, block association, and anything else you can think of that will get you as much information as possible about the property condition and value.

4. **The Neighbors/Tenants** - This is an invaluable source of information. People are always willing to "share" information about someone. Ask the tenants about the condition of the building, the heat, the plumbing, any problems they've had since they have lived at the property. Ask them as well as the neighbors about the neighborhood. Find out about sanitation services, police activity, criminal activities, block associations, political interests in the neighborhood, how many other properties recently sold in the neighborhood, etc.

5. **Public Records** - Every detail about a property and its history are available in public records. You can find out everything from the buildings original construction date, any modifications done to the property, the transfer of ownership, the tax assessment value, liens, judgments, and much more valuable information.

6. **Real Estate Broker/Agent** - They are a necessary source to get information on the prices that comparable properties have sold for in the neighborhood. This will help you determine the fair market value of a property.

7. **Appraiser** - An appraiser will give you the approximate fair market value of a property based upon their assessment of the condition of the property and the neighborhood it is in. This will help you determine whether it is worth pursuing this property based upon your available finances and desire for use of the property. If you cannot make a profit on a flip because the asking price is too close to the assessed value, you will have to try to get the seller to reduce the price.

8.. **Internet Services** - There are internet services that you pay a monthly fee for that can give you much valuable information on a property. This can save you valuable time which is critical in getting the best deals in real estate.

Gathering Information on the Seller

Gathering information on the seller will put you in a superior position at the negotiation table because you will have insight into the seller's mind-set, problems, wants and needs which will allow you to structure a deal that is tailor made for the seller to accept with pleasure. The two very best sources you can use to gather information about the seller are tenants/neighbors and the seller him/herself.

Tenants/Neighbors - By asking about conditions of the property and how the seller related to the tenants, you can get a good sense of why the seller may be selling. If the tenants and/or neighbors can give you a sense of why the seller is relieving him/herself of the property, you are in a better position to understand what the seller really wants. **Hint:** It is not always money. Sometimes it is relief from a management headache, partner problem or other things that you can easily help them with that don't require money.

The Seller - Don't be afraid or embarrassed to ask the seller questions. This is critical to your intelligence gathering. You must find the seller's motivation. If a seller is reluctant to answer questions, simply tell him, "Listen, I'm looking at several properties right now. I don't want to waste your time or mine if this is not a property that will fit what I am looking for. By answering these questions I will know whether or not this is a property that I am interested in buying." Here is a sample list of questions you can ask:

- Why are you selling the property?
- What will you do with the money?
- How long have you owned the property?
- How long has the property been listed (offered for sale)?
- Before you listed the property, did you try to sell it yourself?
- How many offers have you had?
- Why didn't you accept them?
- Is there a time frame in which you must sell?
- How quickly do you want to sell?
- What will happen if you don't sell it in the next six months?
- Are you in financial trouble?
- What type of neighborhood is this?
- How are the tenants?
- Is there a mortgage on the property? How much? What's the interest rate?
- Is the mortgage assumable?
- Will you take owners terms (as opposed to cash)?

Gathering Information on Yourself and Your Allies

Strangely enough, you might assume that you know yourself and therefore don't need to do any research at all. Nothing could be further from the truth when you are about to enter into real estate negotiations. Like any army about to go into battle, you must meticulously assess your strengths and capabilities. You must know exactly what allies you have in this campaign. There are several things you must check, here are a few critical things:

1. **Credit Score** - It is critical to know exactly what your credit score is in order to determine your options for finding a source of financing the property. The better your credit score, the more options you have.

2. **Available Capital** - You need to know exactly how much capital you have to work with, and how quickly you can access that capital. This will play a significant role in how you structure the deal.

3. **Source of Financing** - It is best to have a multitude of available sources of financing from banks, brokers, and corporate lenders to hard money lenders or the seller him/herself. With the knowledge that you can absolutely find a way to finance a property, you will walk into the negotiations from a position of power.

4. **Attorney** - Make absolutely certain that you have an attorney that is familiar with what you are trying to accomplish and is willing and capable of assisting you in successfully pulling it off. Interview your attorney before you hire him/her. Make sure the attorney is comfortable with creative deal structuring. If the attorney tells you a deal cannot be done, get another attorney! You need an attorney that tells you how a deal can be done (legally of course).

5. **Engineer/Inspector** - As stated earlier in this report, an engineer is critical in determining whether a property is a ticking time bomb of problems waiting to happen or if you are sitting on a potential gold mine. Make absolutely certain, you have a good engineer/inspector because one missed problem could literally cost you thousands of dollars. **Note:** A contractor is not an engineer.

6. **Contractor** - A qualified, licensed contractor is critical for first estimating the repairs and once you close to quickly and competently making those repairs. Make sure you get references and look at samples of their work before you hire them.

7. **Appraiser** - An appraiser can be one of your greatest allies, especially when it comes to financing a property. If he/she gives you a favorable appraisal, you can get a larger loan from lending institutions. Whenever possible, develop a relationship with the Appraiser and use the same person for all of your properties.

Step #2 Structuring the Deal

Once you've compiled and analyzed all of the intelligence you have gathered, you are ready to structure the deal. First, determine the benefits you want for yourself. Pick a price and terms beyond which you will not bend. Then, create a win/win situation by structuring the deal so that you get your desired benefits and you also solve the seller's problem.

Determining the Maximum Purchase Price - Most new investors don't have a clue how to determine what the maximum price they can pay for a property and still make a profit. I have outlined below, two simple formulas that can help you make that determination.

For a property you intend to quickly re-sell, use this formula:

1. Estimate the value of the property after repairs.
2. Subtract the following expenses:
 - Estimated cost of repairs needed (based upon contractor's estimate)
 - Overhead & holding costs (10% of the after repairs value)
 - Selling Costs (6% of the after repairs value)
 - Desired Profit (at least 15% of after repairs value)

The net balance is the maximum you can offer the seller to get your minimum 15% profit.

Example

Estimated value after repairs	\$335,000
Estimate of repairs needed	\$35,000
Overhead and holding costs	\$33,500 (10%)
Selling Costs	\$20,100 (6%)
<u>Desired Profit</u>	<u>\$50,250 (15%)</u>
Net balance	\$196,150

\$196,150 is the maximum that you can offer the seller to get your minimum profit of 15%.

Use this formula if you intend to hold the property for rental income:

Add up the Gross Rents Possible
Less Vacancy Factor (5% of gross rents)
Less Operating Expenses (30% of collectable rents)
Less Mortgage Payments & Taxes
The net balance is equal to you cash flow

Example

Gross Rents Possible	\$4,000/mo.	\$48,000/yr.
Less Vacancy Factor (5% of gross rents)	\$200/mo.	\$2,400/yr.
Less Operating Expenses (30% of collectable rents)	\$1,140/mo.	\$13,680/yr.
<u>Less Mortgage Payments & Taxes</u>	<u>\$1,583.34/mo.</u>	<u>\$19,000/yr.</u>
The net balance is equal to the positive cash flow	\$1,076.67/mo.	\$12,920/yr.

In this example, if you are looking for a twenty percent return on your investment, you cannot afford to shell out more than \$64,600.00 (yearly cash flow divided by 20%) for the down payment, repairs and expenses required to purchase the property and get it occupied. If you are looking for a 15% ROI you can pay as much as \$86,133.33 out of pocket (yearly cash flow divided by 15%).

Determining the Amount of Earnest Money

Earnest money is a small deposit you give to the seller to let him know you are serious about buying the property so that you can begin the negotiation process. There is no set amount that you must give the seller. \$1 is legal and binding. Give the seller as little as possible. Never give the seller more than \$1,000.

Determining the Amount of the Down Payment

The down payment amount is often determined by how much the lender will finance the property. Most banks will give you between 90 and 95% of the cost of the property (75% for a commercial property). You are responsible for coming up with the balance. There are numerous ways to plan for this if you do not have the cash yourself. How the down payment is made is something you might want to negotiate with the seller.

How You Plan to Finance the Property

Work out a plan for how you intend to finance the property. Will you use a traditional lender or will you have to get creative and find an alternative source of financing. Perhaps you will use private lenders. If so, you must create a plan with enough time to raise the capitol. One alternative you can negotiate is seller financing. You can create a mortgage with the seller at a slightly higher interest rate than the seller is currently paying on his/her mortgage. You can also assume the sellers current mortgage and agree to a second mortgage for the difference of the asking price and the current mortgage. You can literally create a mortgage with the seller. This is a difficult concept for most sellers to agree to. You must explain the potential tax and interest benefits.

“Subject to” Clauses

Subject to clauses are sometimes referred to as weasel clauses because they are your escape if something goes wrong in negotiations. You should never enter into a contract without an easy way out that doesn't cost you a penny. When writing the contract always add the phrase “and or assigns” anywhere you have to sign your name. This gives you the ability to assign the contract to someone else if you can't pull it off or you just want to sell the deal to someone else. You should also have series of conditions on the contract that if not met, allow you to back out of the deal. I have listed a few that you can use. Use as many as possible, and even create some of your own.

Closing contingent upon:

Partner's approval (partner can be anyone)

all appliances, heaters, refrigerators, stoves, air conditioners and all other equipment pertaining to the operation of the property being in good working order at the day of closing.

The seller obtaining a termite inspection of the property (building code inspection, roofing inspection or any other inspection you can think of.)

Having all things done to the property that need to be done to bring it up to standard (be specific - list repairs, clean up, etc.)

obtaining suitable and adequate financing (specify the amount and interest rate) on or before the day of closing. (If you can't get financing, you get your earnest money back)

Seller providing clear and marketable title to his property. (You might request a survey to verify the title search)

Here are some additional things you can add to the contract

Seller must:

- pay all closing costs
- relinquish all of his taxes and insurance impounds
- paint the property inside and out
- pay any FHA or VA points
- pay the first months water bill (add all utilities if you like)

Closing Date

Whenever possible, try to get a 90 day closing. This will give you an adequate enough time to raise the capital for the down payment or to find a partner. Unless you have no other options you should never try to close in less than 4 weeks.

Determine Possible Problems

Always assume something could go wrong in the negotiation. Try to anticipate “red flags” that could kill a deal and reduce or eliminate them in advance. Example: If a property is worth \$300,000 and has a \$290,000 mortgage, the owner will not be motivated to sell for less.

Plan B

Never assume that the seller will go for everything that you ask for. As a matter of fact, assume that the possibility exists that the seller will reject one or all of the things that you ask for. Have a secondary suggestion for each part of your plan. This way you will not be flustered if any of your offers is rejected. If the seller is totally inflexible, simply get up and walk away from the table. You don't have time or energy to waste on someone that doesn't really want to part with the property.

Step #3 Selling the Seller

Make The Seller Aware of Problems Solved

Establish an early win-win financial strategy so that the seller can see you as a partner in his/her success rather than an opponent to be overcome. Relieve the seller's fears and make sure the seller is well aware of the problems you will be saving him from. Subtly remind him of his financial predicament or the management nightmare that the property is for him. Remind him that you are creating a better situation for him.

Continue Asking Questions

Throughout the negotiations continue to ask the seller questions that are geared towards solving the seller's personal or financial problem. Your goal is to get below the tip of the iceberg to the solution at hand.

Use conditional language like "We may be able to get you the cash you need to get out of the house quickly like you want to." DO NOT promise anything until you have uncovered all of the information you need.

Teach

Teach the seller whose property has been on the market for some time an important lesson: The only reason a property doesn't sell is that the price is too high. Any property will sell immediately if it is put on the market at the right price. If it has been on the market for more than three months, it's not worth what the seller is asking.

Keep everything simple. Don't use real estate vernacular with a novice seller. Remember, a confused mind always says "NO!"

Let the Seller Know About Your Other deals

Act interested but, let the seller know directly or indirectly that his/her property is only one of several you're considering. Let the seller know that based upon your knowledge, the marketplace doesn't command as high a price as he/she is asking.

Price

Always ask for the lowest price possible because every dollar off the purchase price is a dollar that you save. The agent may laugh and look at you funny, but it's the agent's true (and only) job to carry the offer, no matter how ludicrous, to the seller. Here are two important tips you must absolutely remember when it comes to negotiating the price:

Tip#1 - In negotiating the price of a piece of property, the one who mentions a price first loses. Always let the seller make the first offer. You might make an offer higher than the seller was willing to take. Sellers nearly always ask for a higher price than they expect to get. Most often, the price is exaggerated because they expect you to counter with a price far too low, with the ultimate expectation of settling somewhere in the middle.

The inexperienced buyer and seller play this game with little or no thought to what the property is really worth. When pressed how the seller arrived at their asking price, most cannot tell you. This is what will work to your advantage and leads us to tip #2.

Tip#2 - People believe precise numbers more than they believe rounded numbers. Do you remember the Ivory soap ads that claimed "Ivory soap is 99 44/100th percent pure?" Obviously, you couldn't challenge them if they said it was 100% pure, but subliminally the precise figure is more believable.

You can use the believability of the odd figure syndrome to persuade the seller to reduce the asking price of a piece of property on average by \$27,232 on a \$300,000 piece of property. Actually, I have no idea how low you

can get the price. I just used that figure to illustrate the power of using odd figures. Do you see how easy it works?

Here's how you can use it right now. Let's suppose you are buying a piece of property and the asking price is \$350,000. If you offer \$300,000, it doesn't sound as firm as saying, "We've done a thorough research on the property, and after running all the numbers, we feel a fair price would be \$298,700." Do not let the real estate agent talk you into rounding off the numbers. Remember, they are obligated by law to take your offer to the seller however you present it. If they give you a hard time about the figure simply say, "I've been doing this for so long that I have a formula that I use that is accurate 99.7% of the time. I punched in the numbers and that's what came out."

If a seller is firm on his price, you must be able to negotiate flexible terms. If the seller is firm on his terms, then you must be able to choose the price. Whenever possible, choose both price and terms.

That's everything you need to know about negotiating a deal. Armed with these secrets, you are ready to take on the toughest sellers. Remember, the process takes time, some deals may take months or even years. You cannot leave out a single step or you relinquish your strategic advantage to the seller. Practice, practice, practice! Keep practicing until you become a master at negotiating deals.

If you feel you'd like to explore these secrets and dozens of additional secrets more deeply, feel free to call or email me.

I'll give you some ideas to help you take your real estate investing to the next level.

Call Toll Free 1- 800-614-4018 or email me at insidersecrets@mindspring.com

Yours in Success,

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