

## REAL ESTATE INVESTING 101

**Course Objective: At the conclusion of the course the student will recognize opportunities for investing in real estate. The student will also understand the additional requirements imposed upon a licensee when purchasing or selling property for his/her own account.**

*The author, the sponsor, and the instructor cannot be responsible for errors in the preparation of the materials, nor the presentation of the same, the program is for educational purposes only, and neither the author, the sponsor, nor the instructor are providing advice, legal or otherwise.*

### **Types of Residential Properties**

#### **Single family homes**

Single family homes are considered wonderful investments because they usually appreciate at a faster pace than other investments. Also, you can make the lease contingent upon the tenant doing most of the minor repairs (under a certain dollar amount) and make the tenant responsive for maintenance like lawn mowing and snow removal.

#### **Condominiums**

Condominiums are also good investments and are especially attractive to those who do not want to worry about roofs, etc. The one problem with this type of investment is that more and more condominium associations are prohibiting renters from occupying units in the building. The tenant also must agree to abide by the association's rules and regulations.

#### **Small Apartment buildings**

Small apartment buildings are especially attractive to those investors who are looking for housing for themselves and want a tenant or tenants to help with the mortgage. If the landlord does not plan to live in the building then there are maintenance issues that should be included in a tenant or tenants' leases. A good item of additional revenue, in small apartment buildings, is coin operated washers and dryers.

#### **Large Apartment buildings**

Large apartment buildings can be good investments if strategically located. For instance, a large apartment building near a university (preferably one without sufficient on-campus housing) can be a money maker. The author, personally, does not prefer this type of investment because of the "all of your eggs in one basket" theory. If the neighborhood gets stigmatized for some reason your whole investment is jeopardized. Also the management is intense.

#### **Mobile Home Parks**

Mobile Home Parks are getting harder and harder to get property zoned for mobile homes and unless you are purchasing an existing, well run, mobile home park, the author would not advise this as an investment.

However, manufactured homes, especially restricted to those older persons (over 55) are very attractive and communities like them because the residents do not use the schools. Some of these communities are being developed where the developer retains title to the land and gives land leases to the purchasers of the manufactured homes.

## **Finding the Investment Property**

### **Multiple Listing Service**

REALTOR® multiple listing services are a wonderful way for investors to locate property. If you MLS allows you to search by remarks – watch for: anxious, motivated, must sell, owner financing, estate sell. While those words are not recommended to be used by REALTORS® without the permission of the REALTOR'S® client, they certainly allow the investor to know that there may be some flexibility in the asking price.

[www.criagslist.com](http://www.criagslist.com), or a similar on-line service, is another type of data base that can be a good source of property for the investor.

*As we see the market changing from a seller's market into a buyer's market – the opportunities increase for investors. Watch the market time on listings – the longer the property has been on the market, the more opportunity there is for the investor.*

You can also search your MLS for properties that were sold within the past few years with FHA or VA financing. Contact the sellers to see if they are ready to sell. They will have small equity positions and assumable loans!

### **Newspapers-FSBO's**

Watch the By-Owner ads in the newspapers. If you see the same ad week after week, the property might be perfect for the investor, at a price that would be attractive.

### **Estates**

You could go to the local legal newspaper to see what properties are going through probate and see what the amount of the real estate in each estate is. You can research where the property is by calling the attorney who filed the notice for the estate or by going to look at the estate's probate filing-if the court will allow you access to the record. *In the Chicago area, the Daily Law Bulletin is the legal newspaper – your library may get a subscription).*

### **Foreclosures**

There are publications that publish notices of foreclosures. FHA and VA foreclosures are on the Internet. Your broker may have to register for access to the government foreclosed properties.

### **Attorneys**

Developing relationship with attorneys who practice in the following fields might afford you good leads for investments:

Estate Law

Bankruptcy Law

Divorce Law

### **Word of mouth**

Let everyone with whom you come in contact, know that you are a real estate investor. Leads on good investments will start to come in.

### **Signs**

Watch for by-owner and REALTOR® signs that stay up for a long time. Especially, in a buyer's market, a property that needs updated with be overlooked by the average buyer, but be perfect for the investor.

### **Ownership Approaches**

*Before deciding on ownership approaches, speak with your attorney*

### **Individual Investor**

You may wish to be a sole investor and take title in your name only.

### **Partnership**

You may wish to establish a partnership with other investors. You would formally establish the partnership and security a taxpayer's number for the partnership entity. The duties of each partner should be carefully spelled out.

### **Joint Venture Agreement**

A joint venture agreement is a way to "partner" with someone through a written agreement. Each individual member of the joint venture agreement uses his/her own social security number. The Joint Venture is only an agreement, not a physical entity, and does not have its own taxpayer number.

### **Corporation or LLC**

You could establish a corporation or a LLC and have the corporation or LLC purchase the property.

### **Land Trust**

You could establish a Land Trust and have the Land Trust purchase the property.

*Speak with your attorney about placing the property into a Land Trust, LLC, or Corporation, in order to protect your other properties and assets. Author's note: The author has established **separate** Land Trusts for each property she owns.*

### **Equity Sharing**

Equity Sharing allows two entities to be involved in the purchase of a property. The **Equity Partner** (that's you the investor) provides the funds for the purchase. The **Residential Partner** (that is a member of your family or another person you are helping to purchase a property) this person pays the mortgage, taxes, maintenance, etc.

The **Equity Partner** provides the down payment and in return expects to receive those funds back within a pre-established time frame (either through the sale of the property or refinancing of the property). The **Equity Partner** also expects an established portion of the property's appreciation back at the same time the down payment is returned.

**Example:** Jane Investor lends her son, Sam Buyer, \$10,000.00 for the down payment on a \$200,000 home. An Equity Partnership Agreement is signed and Sam agrees within that agreement that the \$10,000, plus 10% of the property's appreciation, is to be paid to Jane Investor within five years.

At the end of five years, the property is valued at \$300,000. Sam Buyer refinances the property and pays Jane Investor \$20,000. \$10,000 as return on the original investment + \$10,000 10% of the \$100,000 appreciation.

The lender should be advised of any Equity Sharing Agreement.

## **Residential Investment Strategies**

### **Purchase property in move-in condition to lease out- positive cash flow**

When purchasing property for investment, ideally, you would like to receive a positive cash flow each month. In other words, you don't want to be digging into your pocket each month to support the property. You want to purchase the property at a good price, and find a tenant to rent it at an amount sufficient to pay all of the expenses on the property. This takes market research before you enter into a purchase agreement.

You want to see what comparable properties have sold for and what comparable properties are renting for. You also want to research what the demand is for rental properties.

*If there is not a strong demand for rentals, the property may not be a good investment for someone who wishes to hold the property and experience a positive cash flow. If the demand is not strong, the people who might be interested in renting may be those with poor credit or bad tenant history.*

### **Purchase fixer-uppers**

#### **Fix and hold - positive cash flow**

When purchasing property in need of work, you want to be sure that the work that you do is consistent with the neighborhood. You don't want to be the most expensive house in the neighborhood after the rehabilitation. Buying property in need of cosmetic work is ideal. Some paint, new flooring, updating of kitchens and bathrooms is generally what we mean by cosmetic work.

After fixing the property, you'll need to find a tenant. Make sure there is a demand for rental properties, with rents sufficient to give you a positive cash flow. Ideally, you also want the property to be appreciating while the tenant is occupying the property.

#### **Fix and resell - % return on investment**

You have probably heard the term "flip" and that's what we are talking about here. You want to buy at the right price, and do your work to make the property more appealing to buyers as economically as possible. Ideally, the work that needs to be done is cosmetic (see above).

When purchasing the property, it is important to analyze the market to make sure that you can purchase the property, make the repairs, and sell it for an amount equal to those two expenses, plus your carrying costs, (mortgage, taxes, insurance, etc.) plus the return on your investment that you expect. Because markets can change almost overnight, we recommend that you start work immediately and do it on a fast track. Don't take more than one month, if possible, to do the work and get the property back on the market.

Ideally, you'd like the seller to finance the property for you (we'll talk more about that later) so your costs are at a minimum. A contract for deed may be a way to do that.

*If possible, you'd like the information about what you paid for the property kept unknown for as long as possible, so your future buyer does not use that figure as a benchmark when making an offer.*

## Financing

### Traditional Financing

To purchase the property, you secure a loan from your friendly mortgage broker or banker. There are a lot of very creative ways to finance and you have to speak with your lender to establish which way is best for your investment goals.

### Owner Financing

#### Purchase-money mortgage

The seller of the property becomes your lender. Today, that could be attractive for the seller who has no need for the funds from the sale of his/her property in order to secure another property. Today, the rate of return on a mortgage is higher than almost any secure investment the seller could make with his proceeds from the sale. You, the investor, will take title to the property at the closing.

#### Second mortgage

The seller makes a second mortgage for you, to allow you to have almost none of your own money in the transaction. You, the investor, will take title to the property at the closing.

#### Contract for deed

The difference between this form of owner financing and the purchase-money mortgage, is that you do not take title to the property at the closing under a contract for deed. The deed is to be transferred at some time in the future, when you have made your payments. You are said to have **equitable title**.

#### Lease with option to purchase

There are many ways to use this technique. One way is to lease the property from the owner, make the repairs to the property, exercise your option to purchase and then resell it to your buyer. You have no financing expense. **Usually, the options include a non-refundable option price. So, if you did not exercise your option to purchase you would lose the funds you deposited to secure the option.**

## Agency Considerations for Licensee/Investor

### Dual Agency

If a real estate licensee, in Illinois, you **MAY NOT** act as a dual agent on property that you own or are purchasing. If you are purchasing property, you may not purchase your own listing while it is listed with you. If you are selling property that you own, you may not sell it to someone whom you **represent**. You may, however, treat the other party in the transaction under Ministerial Acts (see below).

### Ministerial Acts – As a Buyer

If you wish to purchase a property that you have listed you must give up the listing. When the property is no longer listed, or listed with someone else, you may purchase the property with proper disclosure.

If you are interested in a property, where the seller is representing him/herself, you must give a notice of Ministerial Acts to the seller, which advises the seller that he/she is representing him/herself and that you are representing yourself.

### **Ministerial Acts – As a Seller**

If you wish to sell property that you own yourself, you must give notice to the unrepresented buyer that you will not be representing that buyer but will be representing yourself.

Illinois License Law gives you permission to place business information on a purchase agreement if directed to do so by the unrepresented buyer.

***When buying or selling property for yourself, you must always disclose, IN WRITING, that you have a real estate license.***

### **Leasing**

#### **Qualifying Tenants**

It is harder all of the time to qualify tenants. You may use application forms, credit reports, calls to former landlords, etc. You must be consistent in what you do and do the same for each prospective tenant. Some prospective tenants, who are not American citizens, may have to go through a more thorough application process because of Home Land Security. We will not go into those details here as they are very fluid.

#### **Applications**

Be very careful that you don't ask discriminating questions on your application forms. We recommend that you have your forms reviewed by your attorney. Have every prospective tenants complete an application form.

#### **Credit Reports**

You will need to get written permission, from a prospective tenant, in to order a credit report for that prospective tenant. You'll want to establish a relationship with a credit-reporting agency.

*Under new guidelines, the credit agency may physically inspect your office to make sure that you have a locked cabinet for placement of the credit information, and they can charge you for that inspection.*

***Remember: If you order a credit report for one prospective tenant you must order credit reports for all prospective tenants.***

### **Fair Housing Ordinances**

#### **Federal Protected Classes**

**Race**

**Color**

**Religion**

**Sex** (gender based and sexual harassment)

**National Origin**

**Familial Status** (families with children under the age of 18)

Exemptions – Housing for Older Persons – that meet HUD Guidelines

Two people per bedroom is considered to be non discriminatory

Total square feet should be taken into consideration if more children can be accommodated.

**Handicap**

Reasonable accommodations must be made for someone with a disability  
Wider doorways and other features may be installed at the tenant's expense  
Aide animals (even a seeing-eye miniature pony) must be allowed even if there is a no-pet policy in the building.

**Illinois Protected Classes**

Age (over the age of 40)  
Marital Status  
Ancestry  
Military Status  
Less than honorable military discharge  
Sexual orientation - **NEW**

**Local Protected Classes** (check ordinances in your area)

Source of Income (protected in some areas)

**Exemptions from Fair Housing Acts:**

**Housing for Older Persons**

HUD approved housing for older persons, generally 55 years of age and older in housing intended for, and maintained for, those 55 years or older.

***A condominium building cannot just declare itself housing for older persons and exclude children.***

**Mrs. Murphy Exemption**

In some areas of the state, the Federal law allows homeowners to discriminate against **some** of the protected classes if the homeowner:

- Has a 1-4 unit building
- Lives in the building
- Does not use a real estate agent**
- Does not advertise indicating a preference

***In no instance may the homeowner (Mrs. Murphy) discriminate on the basis of race or color.***

***No real estate licensee may act as a Mrs. Murphy.***

***No real estate licensee may advertise real estate indicating a preference – i.e. Christian Handyman wanted as a tenant would be a violation of the law.***

**Section 8-Subsidies/Inspections**

Section 8 is a rent-assistance program. In some parts of Illinois it is a violation of local ordinances to deny housing to a person based on their Section 8 certificate. The Section 8 program inspects the property for suitability prior to agreeing to pay a portion of the rent to the landlord. The program keeps getting new names, but everyone still calls it Section 8.

**Landlord/Tenant Ordinances**

In some parts of Illinois, communities have local Landlord/Tenant ordinances.

*For instance: In Chicago and Evanston you have to attach the ordinance to the lease or reference the ordinance in the lease.*

**Note: In Evanston and Wilmette, there are fair housing brochures that you must give out to prospective purchasers or tenants. They are available free from the respective communities.**

### **Lead Paint Disclosures**

Federal Law requires, that for properties built prior to 1978, the tenant must receive a Lead Paint Disclosure Form, receive any lead-paint inspections that may have been done, and receive the booklet *Protect Your Family from Lead in your Home*.

Illinois has a similar requirement for disclosure but your compliance with the Federal law will suffice.

Illinois has some new regulations, passed into law on June 20, 2006, Public Act 94-0879, that deals with lead paint.

Sec. 9.2. Multiple mitigation notices. When mitigation notices are issued for 2 or more dwelling units in a building within a 5-year time period, the Department may inspect common areas in the building and shall inspect units where (i) children under the age of 6 reside, at the request of a parent or guardian of the child or (ii) a pregnant woman resides, at the pregnant woman's request. All lead hazards must be mitigated in a reasonable time frame, as determined by rules adopted by the Department. In determining the time frame for completion of mitigation of hazards identified under this Section, the Department shall consider, in addition to the considerations in subsection (6) of Section 9 of this Act, the owner's financial ability to complete the mitigation.

(410 ILCS 45/9.3 new)

Sec. 9.3. Financial assistance for mitigation. Whenever a mitigation notice is issued pursuant to Section 9 or Section 9.2 of this Act, the Department shall make the owner aware of any financial assistance programs that may be available for lead mitigation through the federal, State, or local government or a not-for-profit organization.

(410 ILCS 45/9.4 new)

Sec. 9.4. Owner's obligation to post notice. The owner of a dwelling unit or residential building who has received a mitigation notice under Section 9 of this Act shall post notices in common areas of the building specifying the identified lead hazards. The posted notices, drafted by the Department and sent to the property owner with the notification of lead hazards, shall indicate the following:

- (1) that a unit or units in the building have been found to have lead hazards;
- (2) that other units in the building may have lead

hazards;

(3) that the Department recommends that children 6 years of age or younger receive a blood lead screening;

(4) where to seek further information; and

(5) whether mitigation notices have been issued for 2 or more dwelling units within a 5-year period of time.

Once the owner has complied with a mitigation notice or mitigation order issued by the Department, the owner may remove the notices posted pursuant to this Section.

(410 ILCS 45/12) (from Ch. 111 1/2, par. 1312)

Sec. 12. Violations of Act.

(a) Violation of any Section of this Act other than Section 6.01 or Section 7 shall be punishable as a Class A misdemeanor. A violation of Section 6.01 shall cause the Department to issue a written warning for a first offense and shall be a petty offense for a second or subsequent offense if the violation occurs at the same location within 12 months after the first offense.

(b) In cases where a person is found to have mislabeled, possessed, offered for sale or transfer, sold or transferred, or given away lead-bearing substances, a representative of the Department shall confiscate the lead-bearing substances and retain the substances until they are shown to be in compliance with this Act.

(c) In addition to any other penalty provided under this Act, the court in an action brought under subsection (e) may impose upon any person who violates or does not comply with a notice of deficiency and a mitigation order issued under subsection (7) of Section 9 of this Act or who fails to comply with subsection (3) or subsection (5) of Section 9 of this Act a civil penalty not exceeding \$2,500 for each violation, plus \$250 for each day that the violation continues.

Any civil penalties collected in a court proceeding shall be deposited into a delegated county lead poisoning screening, prevention, and abatement fund or, if no delegated county or lead poisoning screening, prevention, and abatement fund exists, into the Lead Poisoning Screening, Prevention, and Abatement Fund established under Section 7.2.

(d) Whenever the Department finds that an emergency exists that requires immediate action to protect the health of children under this Act, it may, without administrative procedure or notice, cause an action to be brought by the

Attorney General or the State's Attorney of the county in which a violation has occurred for a temporary restraining order .....

## Leases

### Standard

These leases are available from most stationery/office supply stores.

You may wish to make the lease subject to:

- Installation of a smoke detector with WORKING battery
- Installation of a carbon monoxide detector with WORKING battery
- If a condominium subject to rules and regulations of the association
- No pets (if you are not allowing pets)
- Landlord/Tenant Ordinance, if applicable

*Your attorney may suggest other items to add*

### Lease with Option to Purchase

In a market where attracting tenants is difficult, you may wish to explore with your attorney the possibility of offering a tenant an option to purchase. Generally, you'd charge a non-refundable option fee that could be applied to the down payment should the option be exercised. You could also increase the monthly rental to include a portion that would be credited toward the down payment should the tenant exercise his/her option. You, of course, are agreeing to sell your property at a price that may be below market price when the option is exercised, but that is a risk that you undertake.

If the tenant elects to exercise the option, then you have sold your property. If the tenant is unable to exercise his/her option, you have received more money for the rental than you would have with a standard tenant.

**NOTE: Because the lease contains the possibility of the tenant purchasing the property, you cannot REPRESENT the tenant and must disclose in writing to the tenant that you will be acting under Ministerial Acts and the tenant will be your customer (not your client).**

### Tenant's right of first refusal

In a lease with a tenant's right of first refusal, you will be giving the tenant an opportunity to meet any offer to purchase your property within an agreed time period after receipt of that offer to purchase your property.

**NOTE: Because the lease contains the possibility of the tenant purchasing the property, you cannot REPRESENT the tenant and must disclose in writing to the tenant that you will be acting under Ministerial Acts and the tenant will be your customer (not your client).**

## Insurances

As a property owner/landlord there are a number of types of insurances that you may purchase:

- Liability
- Casualty

If there is an attached garage be sure that you include coverage for that (ask your insurance agent about what can and cannot be stored by your tenant in the garage)

**Absentee Ownership**

If a building is vacant, be sure that your insurance company is advised.

**Liability**

Be sure not to skimp on this coverage

**Personal Property**

Don't forget that you probably have a stove and refrigerator, etc. in the property that you own.

**Loss of Rents**

Talk to your insurance agent about coverage if your tenant has to move because of a fire, flood, etc.

**Condominium**

For condominiums, as landlord, you may wish to discuss the following with your insurance agent:

Requiring a tenant to insure his/her personal items

Be sure that you have coverage for things like floor covering, kitchen cabinets, walls, etc. (all of the items that are not covered by the building's policy).

Loss Assessment Coverage - Loss Assessment coverage – would pay your share of a special assessment for a **covered** claim.

**Office Policy Considerations for Licensee/Investor**

Your office policy may dictate if you must list property you own through your firm.

Your office policy may also dictate if you must purchase property using your firm.

**Security Deposits**

Your office will require that security deposits that you collect on property that you own be placed in their escrow account **unless you are the SOLE owner** of the property. Sole owner is defined by the Illinois License Law as property owned solely by the licensee, or property owned as a joint tenant or property owned with 100% beneficial ownership in a land trust.

**Advertising**

When advertising property that you own, either for rent or for sale, you must comply with the fair housing laws and not indicate a preference for any specific type of person within the ad.

Be sure that you highlight the property and not the people whom you think should live there.

Be careful that you do not use community names that indicate a preference, i.e. Chinatown.

If your office policy allows you to advertise your own properties as a by-owner, Illinois License Law provides a framework for this activity.

You may only advertise as a by-owner if you are sole owner of the property, **sole owner** is defined by the Illinois License Law as property owned solely by the licensee, or property owned as a joint tenant or property owned with 100% beneficial ownership in a land trust.

Your signs and advertising must indicate either broker/owned or agent owned.

These rules apply for both sales and rentals.

### **Signs**

Multiple family buildings should indicate who to call in an emergency and that information must be somewhere on the building.

You may place your firm's sign on your property if you have listed the property with your office.

If you are going to be renting or selling your property as a by-owner, you must comply with Illinois License Law:

You may only advertise as a by-owner if you are sole owner of the property, **sole owner** is defined by the Illinois License Law as property owned solely by the licensee, or property owned as a joint tenant or property owned with 100% beneficial ownership in a land trust.

Your signs and advertising must indicate either broker/owned or agent owned. These rules apply for both sales and rentals.

### **Newspapers**

Under fair housing you may not advertise indicating a preference for any group of people.

Your newspaper advertising must include your brokerage firm's name unless you qualify as a by-owner.

If you are going to be renting or selling your property as a by-owner, you must comply with Illinois License Law:

You may only advertise as a by-owner if you are sole owner of the property, **sole owner** is defined by the Illinois License Law as property owned solely by the licensee, or property owned as a joint tenant or property owned with 100% beneficial ownership in a land trust.

Your signs and advertising must indicate either broker/owned or agent owned. These rules apply for both sales and rentals.

For more guidelines about advertising, you can go to [www.fairhousing.com](http://www.fairhousing.com)

Roberta Achtenberg, who at one time was with HUD, wrote some guidelines that might prove useful. Her letter is available on [www.realtor.org](http://www.realtor.org) or at [www.fairhousing.com](http://www.fairhousing.com)

While HUD does not have a list of approved words to use in advertising, a list was put together by the Oregon Newspaper Publishers, which we have included below:

FAIR HOUSING ADVERTISING WORDS GENERALLY NOT ACCEPTABLE

ABLE-BODIED (HANDICAPPED)  
ADULT LIVING (FAMILIAL STATUS)  
ADULT COMMUNITY  
ADULTS ONLY  
AFRICAN (RACE)  
AGILE (HANDICAPPED)  
ALCOHOLICS (NO) (HANDICAPPED)  
ASIAN (RACE)

BACHELOR (FAMILIAL STATUS)  
BACHELOR PAD  
NO BLACKS (COLOR)  
NO BLIND (HANDICAPPED)  
BOARD APPROVAL REQUIRED (COULD USE DISCRIMINATORY PRACTICES TO APPROVE)

CATHOLIC (RELIGION)  
CAUCASIAN (COLOR)  
CHICANO (RACE)  
CHINESE (NATIONAL ORIGIN)  
NO CHILDREN (FAMILIAL STATUS)  
NEAR CHURCHES (RELIGION)  
COLORED (COLOR)  
COUPLE (FAMILIAL STATUS)  
COUPLES ONLY  
NO CRIPPLED (HANDICAPPED)

NO DEAF  
NO DRINKERS (BETTER TO SAY NO DRINKING)

EMPTY NESTERS (FAMILIAL STATUS)  
EXCLUSIVE (COULD BE DISCRIMINATORY REFERENCE)  
EXECUTIVE

NOT FOR HANDICAPPED (HANDICAPPED)  
HEALTHY ONLY  
HISPANIC (RACE)

INDIAN (RACE/NATIONAL ORIGIN)  
IRISH (NATIONAL ORIGIN)  
INTEGRATED

JEWISH (RELIGION)

LATINO (RACE/NATIONAL ORIGIN)

MARRIED (ILLINOIS - MARITAL STATUS)  
MATURE COUPLE (FAMILIAL STATUS)

MATURE INDIVIDUAL  
MATURE PERSON(S)  
NO MENTALLY HANDICAPPED (HANDICAPPED)  
NO MENTALLY ILL  
MEXICAN-AMERICAN (NATIONAL ORIGIN)  
MORMON TEMPLE (RELIGION)  
MOSQUE

NEWLY-WEDS (FAMILIAL STATUS)  
NON-DRINKER (BETTER TO SAY NO DRINKING)  
NON-SMOKERS (BETTER TO SAY NO SMOKING)  
# OF CHILDREN (FAMILIAL STATUS)

OLDER PERSON(S) (FAMILIAL STATUS)  
ONE CHILD (FAMILIAL STATUS)  
ONE PERSON  
ORIENTAL (NATIONAL ORIGIN)

PHYSICALLY FIT (HANDICAPPED)  
POLISH (NATIONAL ORIGIN)  
PUERTO RICAN

QUIET TENANTS (BETTER TO DESCRIBE PROPERTY NOT PEOPLE)

RESPONSIBLE  
NO RETARDED (HANDICAPPED)

NO SEASONAL WORKER (BETTER TO DESCRIBE PROPERTY NOT PEOPLE)  
SHRINE (RELIGION)  
SINGLES ONLY (FAMILIAL STATUS)  
SINGLE PERSON  
NO SMOKER(S) (BETTER TO DESCRIBE PROPERTY NOT PEOPLE)  
NEAR SYNAGOGUE (RELIGION)  
NEAR TEMPLE (RELIGION)

WHITE (COLOR)  
WHITE ONLY (COLOR)

© 1993 THE OREGON NEWSPAPER PUBLISHERS ASSOCIATION

### **Multiple Listing Service (MLS)**

Under most REALTOR® MLS rules you must have an **exclusive listing agreement** with a member brokerage firm to use the MLS. The exclusive agreement could be an exclusive right to sell or an exclusive agency agreement.

The definition of exclusive agreement has been added to the Illinois License Law under Section 15-75.

The exclusive listing agreement **MUST** include an agreement between the brokerage firm and the seller that the designated agent is required to negotiate on behalf of his/her client. Without this agreement incorporated into the agreement, you would not have an exclusive agreement under Illinois law and may NOT use the MLS.

You will have to disclose in the MLS that you are the owner of the property.

### **1031 Exchanges**

As an investor, you may wish to sell an **investment property** and replace it with another investment property, without paying tax on any profit. A 1031 exchange is a means by which the federal government allows you to postpone paying taxes. The rules of the exchange require:

- That you identify a replacement property within **45 days of closing** on the original property
- That you close on the replacement property within **180 days of closing** on the original property
- That you don't handle the funds from the original property-an exchanger must handle the funds

I have simplified an exchange, but if you plan to participate in an exchange find yourself the best accountant, attorney and exchanger, all specializing in exchanges.

One misstep and you pay taxes!

### **Disclosures Required of Licensee/Investor**

Licensee Status – the law requires that you disclose your status as a licensee

Ownership Status – the buyer or seller must be told, in writing, that you have an interest in the property

Illinois Residential Seller Disclosure Act – if the property is 4 units or less you must complete the disclosure form.

Common Law – defects – any material latent facts must be disclosed to a buyer

Lead Paint Disclosure Act – as a seller you must make disclosures required by law

- Knowledge of lead paint and its condition

- Disclose lead paint reports and make copies available

- Allow 10 day contingency for the buyer to inspect the property (not for tenants)

- Give the buyer or tenant the Lead Paint booklet *Protect Your Family from Lead in your Home*

**Be aware that your Errors and Omission Policy may not cover you when you represent yourself**

### **Managing Investment Properties**

#### **Self management**

- Get rents paid on time

- Insure that the tenant is not “wasting” the property

- Maintain a contractor list so you have someone to call in an emergency

#### **Hiring property managers**

- Check the reputation of the property management firm and the property manager

- Sign an agreement spelling out what the responsibility of the manager will be

- Collecting the rents

**Tenants**

Offer rent discount in exchange for work  
Delinquencies – don't tolerate  
5 day notice – start eviction process (some communities require 10 days notice)

**PROPERTY MANAGEMENT IS NOT FOR SISSIES**

**Investment Case Study**

**What Action:**

Buy, fix up and resell?  
Buy, fix up and rent?  
Pass on this purchase?

**Particulars:**

2 bedroom, 1 bath, in a popular condominium complex.  
Owner moved in 20 years ago and has done nothing.  
Asking price is \$148,500 - they would probably take \$140,000  
Last fixed-up unit sold for \$160,000.  
Last rental was for \$850 (tenant pays own heat)  
Taxes \$1500 (includes homeowners)  
Assessment \$233  
Commission to cooperating brokerage is 3%  
Estate sale

**Kitchen**

Cabinets/counter tops/flooring in good condition but dated  
Appliances are green and old

**Living room/Dining room**

Carpet in bad condition - hardwood flooring beneath  
Window treatments dated

**Bedrooms**

Carpet in bad condition - hardwood flooring beneath  
Window treatments dated

**Bathroom**

Toilet is white and in good condition  
Cabinet/counter top in bad condition  
Bath tub is white and is in good condition  
Flooring is in need of updating  
Tile on walls is white and in good condition

Do an financial analysis based on:

Funds available for fix up \_\_\_\_\_  
(Partners' cash contributions - lines of credit, etc.)

Fix up costs  
(Partner's ability to do fix ups - hire out or themselves).

Fix up item	Cost
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Carrying costs - while fixing up and marketing for resale or rent - \$\_\_\_\_\_  
(Anticipate fix up time and marketing time)

If going to fix up and resell - what dollar amount do you need to achieve to make a profit?

If going to fix up and rent - what rental do you need to have a positive cash flow?

Just do some basic computations to see if you want to purchase this unit.

***There are no right or wrong answers to the above case study.***

Your decision would depend on what cash you have available.

Your decision would depend on if can do the work yourself or will have to hire contractors

Your decision would depend on the financing - regular mortgage, seller taking back a mortgage or financing under a Contract for Deed.

Your decision would depend on the cost of holding the property (you have to look at the current market – is it a seller's market or a buyer's market). Holding costs can be higher in a buyer's market.