

Flip Properties

When an investor finds a bargain home with built in equity, they can purchase it and instantly resell it for a profit. This is known as flipping. Often times the homes require minor repairs and upgrades to secure top market value. Sub-par financing terms are expected with flips but are acceptable because few, if any, payments will be made on the loan. Because the ultimate goal is to purchase a bargain home, fix it up, and sell it for a profit, expediency is a factor in successful flips. Each monthly payment eats into profit, so time is literally money.



Homes to Avoid

- Homes with structural damage or extensive electrical or plumbing issues
- Unusual or unique properties that stand out from the other homes in the neighborhood
- A home with no equity or negative equity
- Homes in flood plains
- Homes that have experienced violent crimes or documented paranormal activity

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INVESTORS



What You Should Know Before Investing in Real Estate

What You Should Know About Investing

With all of the house flipping reality TV shows, best-selling books, training programs and seminars, real estate investment has received a lot of attention over the past decade. For a while it seemed like just about everybody was a property expert. Unfortunately, this media hype has created a false sense of security among novice investors. While building wealth through real estate can be lucrative and even simple, it is neither easy nor guaranteed. By approaching your real estate investment like any other financial venture, with cautious objectivity, you increase your chances of seeing a profitable return.

Automated Income

Automated income is the coveted goal of many investors, and is often what draws people to real estate. As the name implies, automated income is money gained without continual work. Once established, the money comes in every month with little to no additional effort. A salary is not automated income. If you stop going to work each day, the money will stop coming.



However, earned interest from your savings account does not require any regular effort and is therefore automated.

Leverage

Leverage is gained by investing money that is not your own. In real estate, leverage comes in the form of a mortgage. The less you put down on a property, the greater leverage you have. While investing with little of your own money at risk is appealing, it can also be expensive and dangerous. Interest rates and monthly payments will increase in proportion to your leverage, which eats into your profits. If the housing market takes a downward turn, highly leveraged properties are often the first to suffer. By understanding your risk tolerance and working closely with your mortgage broker, real estate agent, and financial planner, you can identify the level of leverage that allows you a balance of comfort, security, and profit.

Equity

Equity is the value of a property above the invested amount. A home with a market value of \$150,000 and a mortgage of \$100,000 has \$50,000 in equity. A home that is worth \$200,000 but is being sold for \$185,000 offers an instant equity of \$15,000. In real estate finance, equity is synonymous with profit.



Common Methods

Most investors enter the market with two outcomes in mind, rental property and flips. Those in search of automated income will search out rental properties. Those that want a quick, lump sum return will search out homes with high equity.

Rental Properties

A rental property will often require more money down to secure the finance terms necessary to make it profitable. Because of this, it is necessary to find a property that requires minimum repairs or upgrades to keep the investment costs down. Because these homes often have less equity starting out, they should be seen as a long term investment.