Buying
Multi-Family Properties with
NO MONEY DOWN

By

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Buying Multi-Family Properties with No Money Down

Dario Lorenzo has been buying and selling real estate for over 20 years. He knows the business of real estate investment: from buying at the *right* time, finding the *right* property, making the *right* improvements, and selling at a point in the market cycle that produces the *highest possible profit*.

Dario began investing in real estate in Canada where he grew up. While learning the business, Dario began to research different markets including the United States.

Knowing how to recognize emerging markets is one of the key factors in Dario's successful investments, especially in markets with bad economies. Once the economies improved, Dario created tremendous value in his real estate assets.

With the techniques he developed, Dario has been able to buy and sell real estate worth over $100 million dollars. He knows how to structure deals especially those done with no money down and other creative financing methods. Now Dario is ready to share that information with you.

Dario speaks from his own extensive experience when he shares his techniques. Some of these investment methods are commonly used, others are less known. All Dario's tips are useful, whether you are just starting out or you have all your money tied up in other investments.

Not every deal can be done without money down. However, having knowledge of these techniques will help you analyze opportunities that come your way so that you can identify those that can be successfully executed with no upfront money.

For investors who want to control as many properties as they can, Dario's tips are essential. Here's his checklist for creating new wealth.

Checklist

1. Owner Financing

A typically common way to buy a property with no money down is to use owner financing. This occurs when an owner agrees to finance all or some part of the purchase price, instead of getting the cash now.

You'll be surprised how many people own their properties free and clear, and are willing to finance the entire amount or a good portion of the mortgage. Usually, though, you will be getting secondary financing from the owner. That means you will get the majority of the money (the first mortgage) from another source, like a bank, and the seller will give you the rest in the form of a second mortgage.

There are four types of owner financing that you could ask for:

Type 1: Ask for the principal to be paid at a certain later date. If you notice, I didn't mention monthly payments for interest; only that the principal be paid at a later date. Why pay monthly payments or interest if you don't have to?

Who would go for this? Most sellers won't... but some will. You only need one to get yourself a great deal, so ask for this each time. If they do insist on interest or payments, go to the next offer.

Type 2: Principal divided into monthly payments. Again no interest; you're paying off 100% principal. That's a great deal for you!

Example: A seller agrees to finance $100,000 over 20 years. 20 years times 12 months per year is 240 payments. $100,000 divided by 240 equates to payments of $417 per month.

Type 3: Ask for interest-only payments, with the principal to be paid off with a "balloon" (also called "bullet") mortgage in 5 years.

In this example, we offer 8% interest on $100,000 of owner financing. Multiply $100,000 by .08 and get $8,000. Divide the $8,000 by 12 and get a monthly payment of $667 per month. You then must pay off the entire principal balance at the end of the fifth year. You would typically do this by either selling the property or refinancing it.

Type 4: If the owner insists on getting principal and interest, then you would structure the deal accordingly. Owner financing, $100,000, 8% interest, amortized over twenty years with a five-year balloon.

Your principal and interest payment is amortized over a long period—twenty five years—because the longer you make the amortization period, the lower the monthly principal and interest payments will be.

2. Borrow from a Private Lender for Down Payment

If you've got a great deal, but don't have the money for a down payment, find a private lender. This is any individual that has extra money set aside that you can use for your purchase.

The person can be a family member, friend, dentist, doctor, dry cleaner, a member of your real estate investment club, etc. Private investors are everywhere; you just need to start asking.

What do you ask for? Ask if they have money in an RRSP saving account or a savings account that they would like to get a return on, of 8-10%, secured by real estate.

After you get one or two lined up and you start to use them successfully, watch what happens. They will tell their friends, who will tell their friends, and so on. It is human nature to brag at cocktail parties or at the gym about what a great investment you just made. Before you know it, you will have all the funds you need, and your business will explode.

3. Personal Loan

Take out a personal loan at your local bank for the down payment. Don't use the same bank that you used for your first mortgage on the property.

4. Subject To

Just like single family houses, you can take over multi-family properties subject to the existing mortgages. The mortgage stays in the current owner's name, but the deed is transferred to your name.

It's is a great way to take over a property with no money down. This situation usually arises when the property is not performing and the owner is in trouble with the bank.

5. Equity Partner Investor

This means you will share what equity is created in the property with an investor who will give you the money for a down payment.

For example, an investor gives you 20% of the purchase price to put down on a property. In return for this down payment, the investor will get 20% of the monthly cash flow, and 20% of the profits upon the sale of the property.

Additionally, the 20% that is put down will be treated like private money. Private money is a second mortgage on the property. Depending on the interest rate environment, the rate for the private money is 3-4% higher than banks are getting for primary financing.

6. Equity Share Owner

You can also do an equity share with the owner. The owner transfers title to an entity in which the two of you are partners. The property is refinanced for the purchase price. The owner gets out as much of his equity as he can, and becomes an equity partner for the rest.

For example, an owner has a property he is selling to you for $1,000,000. His current mortgage amount is $650,000. He transfers the title, and the property is refinanced for $800,000. He gets $150,000 of his equity and he becomes an equity partner for the remaining $200,000.

The benefit to the owner is that he gets 20% of the monthly cash flow, plus his 20% equity stake will be worth more when the property appreciates.

7. Repair Allowance

When using a repair allowance, you inspect the property and determine what needs to be done in repairs. You add up the cost and have that money given back to you at the closing.

Doing this gives you money for closing that you wouldn't have had. You can use this money for a down payment. I know someone who bought a property for $800,000 and got a $100,000 repair allowance. Not only did he use that for his down payment, he did some repairs that needed to be done immediately. He's planning on using the rest as a down payment for another property!

8. Refinance with Seller Carrying Back a Second Mortgage

This scenario is very similar to the Equity Share Owner situation but the owner does not become an equity partner; he becomes a second mortgage holder. You save a great deal of money in the long run, because you do not give up 20% of the profit and 20% of the equity.

9. Bartering

Just as they did in the old west, you can barter the down payment for anything else that you hold ownership to. This includes equity in other real estate, notes you own, personal property, services...the list does not end.

Use your imagination, and get creative. Perhaps the seller has a need that you can fulfill.

10. Use Part of the Seller's property as Collateral to Borrow Down Payment

Many times you will buy a multi-family building that has several different parcels associated with it. To get the down payment, get the property under contract and coordinate the sale of one of the parcels to use as your down payment.

A real estate investor colleague of mine is using this technique to buy a 100-unit complex. The property was built with the intention to sell as condos, so each unit was separately deeded. My colleague is selling 40 of the units to other investors, making enough profit to purchase his 60 units, free and clear.

11. Substitution of Collateral

If you are purchasing a property below value (property A) and own a property that is being used as collateral for the financing that is on it (property B), you may be able to transfer the collateral from property B to property A. This would free up the equity in property B to be used as the down payment.

12. Issue Stock

Form a corporation and issue stock to sellers for their equity. It solves their management problems and starts a real estate business for you. They get an equity position in the company.

13. Acquire with Future Profits

Acquire the property at an agreed price, with the seller's equity to be paid out of future profits as the project is turned around.

14. Hard Money Loan

When you're investing in multi-family properties, hard money is also called "mezzanine financing". If the loan-to-value ratio is 65% or below, many mezzanine lenders will finance you with no money out of your pocket. Why? Because the value is in the property. If you default, they simply take the property, sell it for 85% of value, and still make money.

15. Family Loan

Do you have a family member with big bucks? Or a family member that has a lot of equity in a property that they can loan you some money from? Perhaps some family members have a lot of money in a savings account that they would like to get a bigger return on. Whatever the case, go to your family first and see what they will do to help you out. If you're smart, you will make it worth their while: either give them a decent interest rate on the money or (even smarter) give them some equity in the deal... perhaps 5%.

16. Acquire with a First and Second, then Sell the First for Cash

Buy a property with the seller carrying back both a first and second mortgage. Make the closing contingent on locating a buyer for the first at an acceptable discount, with the cash going to the seller as down payment.

17. Land Sale/Leaseback

Offer to acquire the improved property, subject to finding a purchaser who will buy the land under the building out of escrow, and lease it back to you subject to the existing financing. Cash from the land sale goes to the seller as down payment. You get depreciation on the improvements, and you can also deduct lease payments.

18. Pledge Future Income as Down payment

If you have a secure job or future investment income, negotiate with the seller to have your bank deduct a specific amount from your checking account each month until the amount the seller wanted as down payment is made. As additional security, you can give the seller a mortgage on other property to secure your performance under the agreement. You get immediate ownership and the seller eventually gets the down payment.

19. Lease Interest as Down Payment

When you are buying from a seller who is also a property user, offer one year's income in the form of free rental as down payment. The seller gets continued use for one year in lieu of cash down. You get ownership with all its burdens and benefits, but with no outlay of cash.

20. The Performance Second

Used in variations involving cash as well as sometimes without cash, the "performance second" is designed to test the seller's faith in the value placed on the property. Buy at the seller's asking price with payments on the second mortgage subject to the income on the property. If income is less than the seller has represented, then the payments he receives on the second will be less than he would like. But if the net income is greater, the payments increase. The second mortgage amortization is consequently tied directly to property performance.

21. Broker as Lender

If you are working with a successful broker, don't count him out as a lending source. Considering that he will receive a commission out of the down payment, there is often the possibility that he might like to make a sound investment at a high interest rate, using in part the cash he receives as commission; that's cash he will not receive if your deal doesn't go through.

22. Line of Credit

Take out a line of credit secured by you personally, your property, another property you own, or—if you own a business—against the business or against your accounts receivable.

Now You're Ready to Buy Multi-Family Properties with No Money Down

As you can see, there are many different ways to structure apartment deals with no money down. The more creative you can get, the more opportunities you will have to get into more deals, and the faster you will create your own real estate fortune. All it takes is this checklist and your own imagination.