27 Ways To Buy Multi-Family Properties With NO MONEY DOWN

By

David Lindahl

RE Mentor, Inc
100 Rockland Street, Building D
Weymouth MA 02370
www.Real-Estate-Fortune.com
Dave@real-estate-fortune.com

Legal Notice

This information is designed to provide accurate and authoritative information regarding the subject matter covered. It is offered with the understanding that the presenter is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert advice is required, the services of a competent professional should be sought.

Adapted from a Declaration of Principles jointly adopted by a
committee of the American Bar Association and a
committee of Publishers and Associations.

RE Mentor, Inc.
100 Rockland Street, Building D
Weymouth MA 02370

27 Ways to Buy Multi-Family Properties With No Money Down

I've been buying and selling multi-family buildings for over 9 years now. In the process of building my real estate fortune, I've used many techniques of structuring the purchase of a property with no money down.

I don't want to mislead you into thinking that every deal can be done with no money down. Some deals will not provide cash flow if you put no money down and—as you learn how to analyze deals with my home study course "Apartment House Riches"—cash flow is king!

Still, it's helpful to have all these no-money-down techniques available if you are just starting out; or you've got all your money tied up in other investments; or you want to control as many properties as you can, with little or no money.

Therefore, keep this list handy and refer to it often. As different deals pass your way, see which one of these techniques you can use to give you the option of getting into the deal with no money down.

1. Owner Financing.

The most common way to buy a property with no money down is to use owner financing. This occurs when the current owner agrees to finance either 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 to 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 equals 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.

This 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 IRA 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's 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. Signature Loan.

Take out a signature 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. This means that the mortgage stays in the current owner's name, but the deed is transferred to your name.

This 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.

In my home study system, "Apartment House Riches", I explain the step-by-step negotiating process that you should follow to secure one of these lucrative deals.

Go here to learn more about my "Apartment House Riches" profit-pulling course: http://www.real-estate-fortune.com/aptkit.html

5. Equity Share 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.

I do this all the time with my students that have attended my "Getting Rich in Apartments" Boot Camp. If you graduate from my boot camp and have no money to put into the deal, and I like the deal you have found, I just might become your Equity Share Investor Partner.

You can learn more about my boot camp at: http://www.real-estate-fortune.com/aptbootcamp.html

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've got a student 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!

Note: I have a whole home-study course on *How to Estimate And Renovate Houses For Huge Profits.* Go here for more information: http://www.real-estate-fortune.com/rehabkit.html

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.

This saves you 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. Create Paper.

Write a note secured by a second mortgage on your house or other real estate in the amount of the seller's equity.

One of the things that a seller thinks about when giving a second mortgage is that he will have to foreclose and would get the property back! The security of your residence may eliminate the seller's demand for cash, given the greater assurance that he won't get the property back.

10. Trade.

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.

11. 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.

Justin Anderson, a student of mine from Augusta, Georgia, 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. Justin is selling 40 of the units to other investors, making enough profit to purchase his 60 units, free and clear!

12. Sell off Dirt, Timber, or Plants.

Sell off the dirt to landscapers, sell the trees to lumber yards, and sell the plants to nurseries. There is a lot of money in that dirt! Use it for your down payment.

When I was just starting out, I offered to partner with a wealthy friend of mine to buy a 48-acre parcel that I thought we could subdivide together. Not having money, I offered sweat equity and the fact that I found the deal as the basis for my partnership.

After inspecting the property, he decided to buy it behind my back because it had four huge piles of gravel on the property. It turns out the gravel was worth almost $2,000,000! It was a special type that we use for our septic systems in New England.

He bought the property for $340,000! That was the only time I lost a million dollars in real estate! Of course he lost a friendship…not because of the money, but because he was not honest with me.

13. 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.

14. 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.

15. 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.

16. Tax Credits.

The government has a program that involves low-income housing tax credits. These credits are like gold, because they allow you to get substantial reductions on your taxes as long as you rent to a certain number of low- or moderate-income tenants for a given period. You can even take those tax credits and sell them at a discount to corporations that are looking reduce their taxes. The money you get can be used as a down payment for the property. Sometimes you get so much money, you can use it for a down payment for several properties!

Justin Anderson, the student I mentioned earlier, also bought a 170-unit building using tax credits. He has a $22,000 a month positive income from that property!

17. Hard Money.

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.

18. Family Loan.

Do you have a family member with big bucks? Or a family member may have a lot of equity in a property that they can loan you some money from. Perhaps some members have a lot of money in an IRA that they would like to get a bigger return on. Whatever the case, go to you 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%.

19. 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.

20. 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.

21. Assume the Mortgage; Seller Keeps the Land.

You buy the improvements and the seller retains ownership of the land, which you lease from him. He gets out of the responsibility of management, and receives land-lease income. You get income and depreciation with no down payment by assuming the existing mortgage.

22. 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.

23. 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.

24. 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.

25. 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.

26. 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.

27. Seller Insures Buyer's Loan.

When the seller has faith in the buyer but the lender doesn't, arrange for the seller to insure a portion of the buyer's loan. The seller would guarantee the top 10% of the loan by depositing that amount in the bank. When the buyer pays down the loan by 10%, the seller's funds are automatically released.

~~~

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 Massive Passive Income!

Want to Learn More?

For a how-to, step-by-step home study system that will show you how to find these deals, how to negotiate the deals, and all the forms you need to complete the deals, go to: http://www.real-estate-fortune.com/aptkit.html

About Dave Lindahl

Dave Lindahl is widely regarded as America's foremost expert on non-institutional apartment investing. He has been involved in over 520 real estate transactions as a principal. Although some giant corporations own more apartments than anyone, those companies do not have Dave's combination of direct, personal, hands-on experience, and his willingness to work with students.

~~~