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Foreclosure Investing Basics

How to Rehab a House and How to Avoid 8 Critical Mistakes.

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So you have decided to start investing in foreclosures? Fantastic! There is so much opportunity in this area that it is mind-blowing. Foreclosures are at an all time high, and they are climbing. People get stuck, and you can make a great deal of money helping them out.

There are a few things you should know before you jump in. Just like any other investment, you want to get familiar with the product you are investing in; in this case it's houses.

To be a good investor, you will need to accurately gauge property values and repair costs. The market price or fair market value (fmv) of a house is determined by, among other things, recent sale prices of similar properties in the same area. Let's say you are interested in 500 Main St. and want to know the current market value.

You need a source for comparable sales (comps) from the last 6-12 months. Realtors can provide Multiple Listing Service (MLS) comps for a given area, title companies can provide comps from tax records (though they are pretty much worthless) and there are a few on-line services that can do the same (ie- Zillow.com).

Taking your list of comps, you drive by each property noting condition, size, appeal and location. Your last stop will be 500 Main St., the subject property. How does it compare to the comps in condition, square footage, lot size and number of bedrooms and bathrooms? Is there anything near the house that would detract from its value?

From your comps, you want about three neighborhood properties that closely match the square footage, bed/bath count and lot size of 500 Main St., your subject property. If those three are all pretty close in condition and there are no outside factors, the sale prices should be close together. Making any adjustments for size and/or room counts, the market value will be in the range of the 3 close comps.

So you know what the FMV of the house is, but is that what it is worth as it sits? Probably not. Rehabilitation (Rehab) is often a requirement to bring a property up to its FMV. Obviously, no one is going to pay market value for a property that needs significant repair. That's where you, as an investor, come in with the knowledge and ability to rehab the property and sell it at its fair market value. Your goal is to get the property at a price low enough to allow for rehab and holding costs until the property can be sold, earning you a profit.

So you have a house picked out and it looks like a pretty good deal. You should know what you are going to do with a house BEFORE you buy it. You should know almost exactly what it is going to take to fix it up and get it sold.

You can get a foreclosure house at the auction, but a better way is to buy it when the homeowner is in pre-foreclosure. These present the best deals, but you need to know how to work with the homeowner. Interested?

[Click Here to find out more.](#)

The objective when doing a quick cost-effective rehab is conformity with the neighborhood. If the neighborhood has shingle roofs, vinyl floors and basic amenities in the homes, you don't need a tile roof, hardwood floors and gold plated fixtures. If there are any homes for sale in the neighborhood, go see them. Take a look at the interiors to gauge where you need to be. **Carpet, paint and some landscape are almost always a requirement for a rehab.** After that, your rehab should focus on getting the most improvement for your investment dollar.

How much will it cost?

In order to figure this out, you'll need to know the prices of things used in repairing a house. Go to a local hardware store and get prices for knobs, hinges, switches, outlets, cover plates, light fixtures, bulbs, mailboxes, plumbing supplies, sinks, toilets, water heaters, faucets and paint. Write the prices down and keep a quick reference sheet. Always figure on carpet, paint and fixture replacement. Then you'll only have to add specific items as needed for individual properties.

NOTE –Unless you have some construction experience and know what you are getting into, I strongly advise against a new investor purchasing properties needing structural repairs. If there are sagging floors, cracked foundations or fire, water, or dry rot damage, stay away from the property. While these kinds of properties can be purchased way below market value, inexperience can shoot the rehab cost higher than expected.

How long does a rehab take?

That depends on how much time and work you personally are going to put in, and how much you want to contract out. Rehabs shouldn't take more than a month or a month and a half. If you think it will take longer, be prepared to pay those additional closing costs.

Starting The Rehab

Now that you have a pretty good idea of what the house should look like, how do you get it there?

Start on the outside by trimming overgrown trees and shrubs and mowing the lawn. If it's dead, rake the heck out of it (you can use a power rake if it's really bad), remove all the dead grass, throw some fertilizer down, and water like crazy. Bringing back a dead lawn will add a ton of curb appeal to the house and make the neighbors like you! Start with vegetation first, because it takes time for plants to grow.

A freshly painted exterior on a home greatly improves its curb appeal. Don't go too crazy here; stick with what is normal in the area. If you have aluminum or steel siding that needs to be touched up, you can take a sample of the siding to a hardware store that does paint matching and get a near match. Beats residing the house!

Interior Rehab

There are three basic inside area types - kitchen, bath and living. The kitchen is the most expensive to rehab, bath is the second most expensive and living areas are pretty cheap.

We are basically going to do a quick gut of the house. Remove all trash and furnishings that you are not keeping. Starting with living areas, pull the carpet from each room, roll it and store it in the center of the living room. You can leave the padding. It's much easier to paint without carpet, the living room is usually the largest room and closest to the front door. The new carpet installers will haul it off when they install the new carpet.

Remove window coverings, light fixtures, door knobs and hinges. Pull the covers off of any fixtures that you plan on keeping. This will make painting easier. Turn the power off at the breaker box anytime you are working around electrical fixtures and outlets.

You know what the number one factor is in selling a house? Lighting. Too much is better than not enough. Make sure the lighting is adequate, if not, change fixtures or put in additional ones. This is easier to do before you paint, when you can still have an electrician wire additional switches if you need to. It will reduce your touch-ups later.

Pull the doors out of all rooms. If they are damaged, replace them. If you can get away with painting them, do that. Doors are fairly cheap, and you can really add to the interior of a house with the doors you choose. I use a white 6 panel door and they cost me about \$50 a pop, jamb included. They look much nicer than those standard flat wood interior doors.

Now is the time to patch, clean and prep for painting. Mask off doorframes, cabinets and window frames. When you've completed the prep, start the painting. Sprayers are the fastest method of applying paint, and since the house is empty, overspray isn't a major problem. Make sure the area is ventilated. Remember that you are not painting your house. Choose a neutral color to appeal to a broader audience.

Count the number of outlets, switches, hinges, knobs and light fixtures. Go through the whole house counting everything you removed or will remove. Every light switch and cover plate should be replaced along with all outlets and plates. Every living area light fixture and bulbs should be replaced. Check to see if kitchen and bath light fixtures need replacement or can be cleaned up. Bathroom fans are expensive, so if you can save it, do it.

Every door will need new hinges and a knob. Do you have to change everything? Selling a house is about impression. Used hardware will be discolored,

scratched, have paint on it and not match throughout the house. A new knob, striker plate and hinges, a new light fixture, new switch, outlets and paint are cheap and increase your “wow” factor. Everything will match, be brand new and make the home much more desirable. Match your fixtures too. Silver door knobs, silver light fixtures, and gold with gold.

If you are painting the doors, I suggest using a sprayer outside. You can line them up and knock them out fast. Be sure you paint the sides that will be visible! When they are dry, flip them over and do the other side. Paint doorjambs and cabinets with a small brush. After the paint is dry, install fixtures and hardware.

Note – Buy a decent paint brush. Cheap, low quality paint brushes don't hold paint well and paint unevenly. You don't have to go top of the line, but don't get the cheapest either. This goes DOUBLE for paint rollers!

Bathrooms need attention as they are a big selling point. Fixtures may have been upgraded through the years, so you may be able to keep some of them. Use your judgment. It's easier to paint and replace flooring if the toilet and any sink cabinet are removed. Re-install with new plumbing and seals and you will have a fresh bathroom with no water leaks or build up. Cabinet handles and hinges should all be cleaned or replaced. Match the flooring and paint in multiple baths if you can. The bathroom fixtures don't have to match throughout, but they should match within each bath.

Kitchens tend to be the most important room of the house, and one of the first that your new buyer will see. Cabinets are expensive, so if you can save them clean and paint them. Cabinet handles and hinges should be replaced unless the existing ones can be cleaned. Counter-tops can usually be changed fairly easily if needed. If the sink is stained or corroded, get a new one, they are cheap. Same goes for the plumbing beneath it.

You should be done with paint and everything remaining shouldn't get the carpet stained or tracked up. Get the carpet in.

Finishing The Rehab

It's time to finish the front of the house. Flowers should be planted where appropriate, either rehab or replace the mailbox, porch light, house numbers and doorbell. At this point, you need to clean all the windows in the house, inside and outside.

Take a critical look from the street, is there anything that stands out as being unattractive? Is your property now the best or one of the best looking on the street? If it's one of the best, there's nothing unattractive and you've priced right for the area, it will sell quickly.

Smoke detectors need to be installed and you need to check all the systems (electrical, plumbing, heating and air conditioning) to make sure they work properly.

8 Common Mistakes You NEED to Avoid!

The Mistake:

You find a property, put it under contract, and find out that it's not a good deal. You have to close or you could be sued!

The Solution:

Put contingencies in your purchase agreements. Why do you want contingencies? Contingencies provide you with a way out of the contract. For example, suppose you find something wrong with the house between the time you sign the agreement and the closing date, you'll be able to get out of the deal only if you've put in the proper contingency. Always try to put in a contingency so that you can walk away from any deal for almost any reason and at any time. You can also consider using options, which give you the right, but not the obligation, to buy the house.

The Mistake:

Analyzing property too much, looking forever and never talking to homeowners.

The Solution:

This is called “paralysis of analysis” and is very common. Focus on the numbers. How much is it worth? What are the repair/carrying costs? Make a decision and move on it. Remember that nothing you ever did was perfect the first time around. Get out and talk to a homeowner!

The Mistake:

Running out of cash, either during a rehab, between houses, or at tax time!

The Solution:

Always keep a cushion. Put money away. Keep a job until you have a good base built up. Remember: If you flip a house you are going to owe a good chunk of tax money.

The Mistake:

Spending too much money rehabbing a house that you bought to sell.

The Solution:

Don't overdo your rehab. Remember that this isn't going to be YOUR home. It is your investment. Don't spend unnecessary dollars. Make the house as nice or just a little nicer than its neighbors. Concentrate on the small, cheap improvements that make a big visual difference!

The Mistake

Paying for a repair or construction job before its 100% complete.

The Solution:

Never pay for a job until it is 100% complete. If you do pay 100% before the job is done, what is the incentive for the contractor to finish? Almost doesn't cut it unless you are prepared to finish for them. 100% is 100%.

The Mistake:

Not putting every repair in writing!

The Solution:

Put every repair bid in writing. Outline what exactly will be done, what is included and what is not, and costs associated. Also, in your contract, put an amount that the contractor will be charged (daily amount) if they do not complete the job on time.

The Mistake:

Signing the first buyer that walks through the door.

The Solution:

I know you are excited to sell your house, but NEVER sign a contract to sell a property without knowing if the buyer is **pre-approved**, not just pre-qualified! Over 50% of all real estate contracts fail because the buyers cannot get a new loan. Get their pre-approval letter. Do you want to tie up your house for a month or 2 just to see the deal fall through? Remember that you are going to have to pay those holding costs.

The Mistake:

Not getting started soon enough!

The Solution:

Start Now! Get the right information, read all the books you can, talk to other real estate investors and get out there and talk to homeowners! Do your first deal. It will be the most difficult, but after that they get easier!

Want to learn exactly how to get started in pre-foreclosures? To get all the forms and exactly what you need to say to distressed homeowners,

[Click Here](#)

As a final note, I cannot stress that last mistake enough. I know that it is definitely easier said than done. Heck, I'm guilty of the same thing! When I first learned of real estate investing, I felt like I had to know everything before I got started. I read all the books I could, bought some OUTRAGEOUSLY expensive courses (that taught me next to nothing) and spent hundreds of hours online trying to figure out how to get a handle on it.

I have to laugh when I look back. I wish I would have spent some of that time just talking with people. To this day, I don't know all I'd like to about investing. I'm still constantly looking for more ways to invest and tweaking the techniques here and there. But I'm out there doing it.

I guess my point is, just look up one foreclosure this week. Find the address and the name, and go to their house. Introduce yourself, and see what you can do. The worst that can happen is they will shut the door in your face and tell you to get lost. You know what I do after that? "NEXT!"

If you are unsure about how to go about actually speaking to them and what you should be telling them, check out my website.

[Click Here!](#)

There you'll find everything you need to feel comfortable in front of homeowners. You probably will still be a little nervous on your first approach, but it gets better.

The benefits are enormous, and people are making a ton of money while helping others out.

In any case, now you know about how to fix the house up, and what mistakes you need to avoid. All that's left is to learn a little more about how exactly to buy them, and take the plunge.

Good luck in all your investing ventures!

Thanks for reading!

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