Submit Proposal
Worksheet
Balance Equity

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Finding a Taker for your Property

EXCHANGE AND BUY BACK
(Very similar to the R.E.O. except done with individuals)

When -	When a person wants to establish a value on the property that they are exchanging in to another individual or when they want the option to repurchase that property.
Situation -	Jones has a four-plex that he feels is well worth the money. The rents, however, are not at their peak and therefore most people look at the property with the idea that it is not worth what he is asking.
How -	Jones exchanges the four-plex at a value of $120,000. He then agrees to buy back the property at that figure within 1 year's time. That time may be extended to as long as 5 years where he would have the option to repurchase the property at a price of $130.1000.
Results -	If Jones buys the property back he then has established that the property value would be correct. Also he is establishing a new basis when he does buy the property back. If he just has an option to buy the property back within 5 years, Jones might find that the property values increase considerably and he could buy the property at a "bargain" price.

EXCHANGE AND LEASE BACK

When -	Again this can be used when there is a disagreement as to the price and perhaps the income on the property is not sufficient to warrant the asking "price."
Situation -	Jones has a four-plex that he has not kept the income up to what it should be. His rents are only $200 per month when they should be at $250 per

month to warrant a price of $120,000.

How - Jones again offers to exchange the property and lease it back at a rental of $250 per month for a period of 1, 2, or 3 years. This will establish in the mind of the taker that the price is worth what he is asking. Jones can then go ahead and increase the rents and if he can do better than the $250 per month, he can actually pocket some money.

Results - Jones has established a value of the property and the taker of the property doesn't have to worry about vacancy for the length of the lease.

EXCHANGING ENCUMBERED PROPERTY FREE AND CLEAR

When - When you have a property with a large loan on it for which you can not get a taker.

Situation - Jones owns a multiple zoned lot valued at $180,000. He owes $100,000 against the property. He has been unable to find a taker for the property under any situation. He offers to exchange the lot for a free and clear single family home of approximately the same value. He then gets a new loan on the house for $100,000 which he uses to pay off the loan on the lot thus exchanging the lot free and clear.

Results - You make an exchange or transaction that would be almost impossible otherwise.

EXCHANGE THE NEGATIVE FOR A PERCENTAGE INTEREST

When - You can't afford the negative cash flow on a good property.

Situation - Jones owned a residential lot that he thought would go commercial in about 3 years. He owed $20,000 on the property with $200 a month payments. Smith could easily afford the $200 a month due in 10 years and wanted a good return on his investment. Jones offered Smith 50% of his equity (in this case $10,000) if he would make the payments. Smith accepted. In 3 years the property went commercial and the value jumped to $80,000.

Results - Jones ended up with $30,000 and didn't have to make a payment. Smith put out $7,200, most of which he could deduct on interest and end up with $30,000.

BING - BONG

When - You own a property too long - need paper - wish to change position.

Situation - Jones owns a F/C 440,000 lot. He wants to generate cash but can't sell the lot or borrow against it!

How - Jones finds an owner of another lot, bare land, or similar sized property. An exchange is made and each party carries back a $25,000 1st mortgage or trust deed at identical terms. After exchange the carry back trust deed or mortgage can be sold for cash at a discount, kept for income, or traded.

Results - Cash generated or new position requiring some action.

"IN LIEU OF"

When - When cash., paper, or property is offered to you in an exchange but you do not wish to accept it for tax or other reasons

Situation - Jones owns a 20 acre parcel at the edge of town which has increased in value from the $20,000 he paid for it 20 years ago to a million dollars at the present time. He is offered a million dollars cash for the property and finds that he would be taxed on $980,000 of gain. Even using capital gains, he finds that his tax could be as much as $300,000. Jones does not wish to pay this kind of tax on the transaction.

How - Jones can accept the cash offer providing other real estate acceptable to him is found "in lieu of" the cash offered. He can then find other property, which he would prefer having, on the market and use the million dollars to acquire that property. In this way, he avoids the large capital gain and can acquire another property which he wishes to keep.

Results - Jones pays no tax in this transaction. Be extremely careful because if Jones can take the cash in this transaction at any time, he could be considered taxable by the IRS.

REAL ESTATE FOR SERVICES

When - A professional man or perhaps a person who has fixer-upper qualities does not have the cash to use to acquire property but still wished to acquire some real estate.

Situation - Jones is a young attorney just getting started. Jones does not have any cash., However, his business is in the process of building and the future looks bright. Jones would like to acquire some real estate for investment purposes, but does not have the cash at the present time.

How - Jones offers to exchange $5,000 in professional services to a party who wishes to move out of a duplex. The party owning the duplex can use the professional services or perhaps exchange them to someone else at a later time. They also may be able to sell the services at a discount.

Results - Jones was able to obtain a duplex with no down payment and has the added benefit of securing new clients.

LAND PLUS CASH FOR INCOME

When - When a party owns land with no income and is unable to exchange it for income property.

Situation - Jones owns a $50, 000 lot free and clear on which there is no income Jones would like to have some income from his equity. Jones finds Smith who carries a $60,000 equity in a tri-plex.

How - Jones offers the lot plus $10,000 to Smith for his equity. Smith did not want a lot but the cash gives him the added incentive to make the transaction.

Results - Jones ends up with a cash flow tri-plex and Smith ends up with the cash plus the lot which he will build on later.

TWO BUY SELLS

When - Normally when a loan must be obtained in an exchange situation.

Situation - Jones owns a lot valued at $50.1000 which is clear. He wishes to exchange that lot as a down payment on a $200,000 apartment building and wants to get a new $125,000 loan. The seller will carry back a $1,000 2nd after placement of the new loan. Lender is reluctant to make a loan in an exchange situation.

How - The exchange is written up as an exchange with all details being covered. For financing purposes, the escrow or closing statements are written up as "two buy-sells". Jones will buy Smith property for $200,000 with $50,000 cash down, a new loan to be gotten for $125,000, and the seller to carry back a $25,000 2nd with terms suitable to both parties. The seller, Smith, agrees to buy Jones' property for $50,000 cash. Two escrows are opened and there will be two closings . When reporting the transaction to the IRS, the transaction can be reported as an exchange due to the fact that the IRS indicates that an exchange is mandatory. The buy-sells are only for

	financing purposes.
Results -	A transaction can be made smoothly. Most lenders understand that funds used as a down payment are often received in the sale of another property. The alternative is to have to have both properties appraised and have a confused loan officer.

DEED BACK

When -	When a person has a high interest, low equity, negative cash flow property.
Situation -	Jones had been forced to take another property in an exchange situation. He didn't really want the property as it consisted of a small house worth approximately $40,000. The loans against the house totaled $36,000. With the interest rate at 14.5%. The property payments were $447.00 per month and the property was rented at $325.00 per month. Accordingly, this "$4,000.00 in equity" was costing him almost $200.00 monthly negative cash flow including the taxes, insurance, and upkeep.
How -	Jones approached the lender, indicating there was really no equity in this property and he was interested in "deeding back" the property rather than allowing it to go delinquent, bringing about a foreclosure. The lender appreciated his contacting them and working out arrangements to allow the "deed back" .
Results -	The lender did not have to foreclose on the property and Jones got out from under a big negative on a small property.

DISCOUNTED SALE-OPTION TO BUY BACK

When -	If you need money badly and are unable to borrow against the property or sell at market value.
Situation -	Jones finds himself in the need of $20,000. He has nice little commercial piece of land at the edge of town with an appraisal of $50,000. He can't borrow against the property.
How -	Jones offers the property for sale for $25,000 all cash provided that he has the option to buy the property back within one year for $30,000 all cash.
Results -	Jones generates the cash almost immediately. It will cost Jones $5,000 for his interest, however, he will be able to buy the property back within one year for $5,000 more than he received. Smith, the buyer, will receive $5,000 for the use of his money for one year. In the event Jones does not buy back the property, Smith has a tremendous bargain.

SHARE THE WEALTH

When -	When you need to generate cash through an exchange but other party also wants cash.
Situation -	Jones has $80,000 in F/C land or paper and needs cash.
How -	Jones finds Smith who owns an $80,000 F/C (or close to it) house. Jones offers to exchange equity for equity. Smith counters that they "share the wealth." Jones is to give Smith 1/2 of the $60,000 generated in a new loan and Smith will give Jones back a $30,000 mortgage on the land at the same terms as Jones is having to pay on the new loan.
Results -	Half a loaf is better than none. Jones doesn't get as much cash as he would like to have, but he can make the transaction. Both parties share the cash, generated money can be distributed in any proportion approved by parties. Usually costs of loan are prorated in proportion to cash received.

USING "NO PAYMENT" NOTES

When - When you wish to acquire a proper on which the payments are already too large.

Situation - Jones wishes to acquire a four-plex which is bringing in approximately $1,000 per month. This would leave approximately $600 per month for making payments. The existing payments on the property are already $700 per month. Jones would lack $15,000 on his down payment so would be asking Smith, the owner, to carry back another $15,000 note. In the event Jones had to make payments on this note, the negative cash flow would be too much to make the transaction beneficial.

How - Jones offers the $15,000 note to equalize equities, however, there would be no payments on the note for two years at interest only at 10% then the note would be amortized over 20 years.

Results - Jones could afford property with the $100 a month negative but would not be able to acquire the property with a $250 per month negative.

Variation - In the event that Jones would offer a contract or a wrap around note instead of the $15,000 2nd the wrap could be made where there would be no payment to the other party on his portion of the wrap at least for a period of time.

ACQUIRING PROPERTY WITH CREATED MORTGAGE OR TRUST DEED

When - When you need more shelter or have the opportunity to acquire more real estate and you don't want to get rid of the property you have.

Situation - Jones owns a$300,000 8 unit complex owing $120,000 on it. He wants more shelter but doesn't want to pay the expenses and interest of getting a new loan.

How - Jones offers out a $100,000 created 2nd mortgage or trust deed payable at $1,000 a month - 10% interest due in 10 years. He exchanges this for a $400,000 12 unit complex and takes over a $300,000 loan.

Results - Jones has no loan costs and is using his equity to acquire more shelter. He has full basis on the acquired property. Other party can report the note as down payment at the fair market value of the note. (Check with your accountant.)
*The above transaction has the same "overall benefits" as a tax deferred exchange!

WALKING THE LOAN

When - When you have a loan against the property that makes that property un-saleable or difficult to exchange.

Situation - Jones owned a $200,000 property with a $100,000 loan against it. He was unable to sell or exchange the property with the loan on it.

How - Jones has other real estate with which he can secure that $100,000. He makes arrangements with the lender to walk the loan from this particular property over to one of his other properties clearing this property and making it much easier to sell or exchange.

Results - Jones has a free and clear property to move now rather than one that is highly encumbered.

PERFORMANCE MORTGAGE

When - When you're acquiring a property that is supposed to have a certain income which the seller has told you the property will make.

Situation - Jones is interested in acquiring a commercial rental that Smith owns. Smith tells him that he has a lease on the property for $1,000 per month.

	He has never had a vacancy and the property can be depended upon to bring in that amount of cash.
How -	Jones makes an offer on the property for $20,000 cash down with Smith to carry back an $80,000 mortgage which pays at $850 per month including interest at 10%. Jones writes into the mortgage that in the event the income on the commercial property falls below $1,000 per month, the payment will drop to $500 per month. Should the building become completely vacant, there is to be no payment and no interest to accrue. Smith takes the offer!
Results -	As long as the building performs, Smith will receive his payments. Should the building not perform as Smith indicates, Jones will not have to make the payments.

SUBSTITUTING COLLATERAL

When -	When Jones acquires a property and gives back a "purchase money" note on the property he is acquiring.
Situation -	Jones is acquiring a $60,000 single family rental paying $10,000 cash down and giving back the seller a $50,000 "purchase money" note secured by mortgage. Jones retains the right to substitute collateral of equal or greater value for this note at sometime in the future.
How -	Three years from the time of purchase, Jones has a chance to use this house in a transaction, however, the acquiring party must have the house free and clear. Ordinarily Jones would have to pay off the $50,000 but with the agreement to substitute collateral, Jones secures the note with a $70,000 equity on a duplex which he owns. Jones walks the note to this property giving him the house free and clear so he can use it without paying off the existing note.
Results -	Jones saves $50,000 in cash that he would have had to generate in order to pay off the note. (Jones can also ask for a "first right of refusal" if the note sold at a discount.)

SHARED APPRECIATION

When and Situation -	Jones and his wife are a young couple just getting started. They don't have a and down payment and don't qualify for the loan on a house they would like to Situation - own. Smith is an investor who likes the benefit of real estate ownership and shelter but doesn't want management.
How -	Smith and Jones agree to purchase the home Jones wants. Smith puts up the down payment and qualifies for the loan. Jones then "rents" the house for the payment and pays all taxes, insurance, utilities, and any and all repairs. The lease period is for 5 years with the contract between Smith and Jones stating that at that time the house would be appraised and Jones would pay Smith all of his down payment, plus ½ of the appreciation.
Results -	Smith has a 50% equity getting all the shelter and 50% of the growth. He has no management. Jones gets the house he wants and 50% of the "growth," at the end of the 5 years Jones can qualify for a new loan.
Danger -	In some cases, such as divorce, the occupants of the property have sued the investor for "their share" of the growth even though they haven't lived up to their part of the bargain and gotten it. The author believes a "lease" with "option to buy" may be a better vehicle for all. Consult your attorney!

LOWER PRICE FOR SHARED APPRECIATION

When -	You have a property you're interested in selling and a buyer interested in

buying but the buyer is unable to afford the payments on a high interest rate.

Situation - Jones has a single family home that he is interested in selling. The purchase price is $60,000 and the seller has 10% or $6,000 cash to put down. Under a 12% interest loan, the payment would amount to $555 monthly. The buyer is unable to pay this amount plus taxes and insurance. Jones gives them the opportunity to acquire the property for the same price only he would carry back at 10% interest with a payment of $470 per month providing he would retain 25% of the ownership.

Results - Jones did much better than otherwise making up the back interest.

NO DOWN PAYMENT ACQUISITION

When - Jones wants to acquire more real estate but doesn't have the cash.

Situation - Jones want to acquire a single family home for more tax shelter and growth but doesn't have the cash for down payment.

How - Jones finds a motivated seller who really wants out. He has a $60,000 home with a $30,000 equity. Jones offers a $30,000 note payable interest only at 10%, due in 10 years for the equity. Proposal is accepted!

Variation - Jones offers to get a new loan for $45,000 cash, gives seller $5,000 cash and puts $10,000 in his pocket. He then gives seller a $25,000 2nd back on the property.

Warning - Author highly recommends against this kind of transaction. They usually end up in lawsuits and everyone loses!

Variation - Jones gives seller a blanket note for $30,000 covering property being acquired and other property Jones already owns with a reasonable equity. Note calls for a release clause when $15,000 in principal has been paid.

Results - A no down payment transaction can be good for all if it is properly structured!

BREAKING UP YOUR EQUITY

When - There are times when you may have too large an equity to be used in an exchange situation. This equity can be broken up.

Situation - Jones has a $200,000 four-plex he owns free and clear. He wishes to diversity into different types of real estate for added safety.

How - Jones can exchange his improvement only at a value of $160,000 keeping the land under the property which he could then lease to the acquiring party. The lease could be a long term lease running for 50 to 100 years with the stipulation that the improvements would revert to the landholders at the end of the lease. Jones could then exchange or sell the land lease valued at $40,000 for another property. In the event Jones wished to retain his improvements, he could exchange the income from those units for a period of 5 years for another property which he wishes to obtain. Jones might even exchange an option to acquire his property at $200,000 within any time during the next 5 years for a considerable amount. Jones must determine what it is that he wishes to acquire and then determine which part of the property he owns he is willing to trade for it.

Results - Can be a considerable diversification of properties obtained from one larger entity. Also, the owner may value the land lease at a greater figure or the improvements depending upon his tax situation.

SELL OR EXCHANGE?

When - When a client moves away from a property on which they would take either a sale or exchange for property where they plan on living.

Situation - Jones moves from Michigan to California. He has had his small farm on the market for sale for two years but has not been able to find a buyer. He finally makes the move anyway and wishes to either sell the farm and take the cash or move his equity to California.

How - He lists the property with a real estate exchange specialist who then contacts a broker in Michigan to see if he would be interested in working on the property under a sale situation. He makes arrangements with the broker in Michigan that if he sells the property he would receive 80% of the commission and the exchange broker would receive 20%. In the meantime if the exchange broker would make the exchange, he would receive 80% of the commission and the selling broker would receive 20% for his time and trouble.

Results - The transaction is made either through a sale or an exchange and the owner, Jones, has the best of both worlds. (The author has worked in this way and has found it to be very satisfactory for all parties concerned.)