



## Today's Five Best Real Estate Profit Opportunities

A Special Report From Real Estate Expert Bob Bruss

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Whether you are a homeowner, real estate investor, realty sales agent, mortgage lender, real estate attorney, or someone else connected with the nation's largest industry – real estate – the year 2003 was probably a *very* good year for you.

To everyone's surprise, 2003 was the best year in recent history for new home sales volume (1.1 million), resale home sales volume (6.1 million, compared to a record 5.5 million set in 2002), a record \$3.4 trillion in new and refinanced home mortgages (compared to the \$2.2 trillion record volume set in 2002), median home sales price increases of 9% higher than 2002, and average market values of existing homes rose about 5.6% in 2003. *Perhaps more important, the inflation rate for 2003 remained very low, somewhere around 2% to 3%, depending on whose statistics you believe. Average mortgage interest rates were 5.8% for 2003, setting a record low in June 2003 of 5.3%.*

What's ahead for 2004? Most economists predict slightly rising mortgage interest rates. But what do those high-paid economists know? At the beginning of 2003, none of the esteemed economists for the Realtors, home builders, and mortgage brokers predicted the record-low home mortgage interest rates which bottomed out in June 2003, resulting in the best year ever for home sales volume.

If you discover somebody who knows for sure what will happen to real estate market values in 2004, please let me know. *The "experts" were wrong for 2003.* That's why I don't predict what will happen in the future for real estate – my crystal ball is *always* foggy! However, over the long term, real estate ownership benefits have far surpassed any alternative investment such as the stock market, mutual funds, bonds, savings accounts, etc. There is no indication that will change.

The long-term trend for U.S. real estate market values, ever since property valuations were first recorded, has always been up. But there are peaks and valleys along the way – with some plateaus too. *However, occasionally real estate values decline and never recover – look at the one-industry ghost towns where the major employers closed and weren't replaced with other employers.* Fortunately, those situations are very rare. But there are currently many local "price pockets" which suffer depressed values, especially upper-end luxury houses in many communities. To illustrate, a few weeks ago I asked a local Realtor what happened to a local mansion that was listed for sale at \$25 million in 2002. "Today, you can buy it for just \$15 million," he replied.

**HOW TO FIND TODAY'S BEST REAL ESTATE OPPORTUNITIES.** It has been over five years since I last wrote about the best real estate profit opportunities. Frankly, not much has changed in real estate investing. What was good then is still good for investing today.

But I'm not talking about buying foreclosures in distant Podunkville, or rushing to buy pre-construction houses from a builder who is desperate to make sales to qualify for his construction loan. Exact investment opportunities will vary by community. But the general principles and types of best realty investments remain the same nationwide.

Our focus is on profiting from today's best real estate profit opportunities. Some of the suggestions will surprise you. Others will re-focus your attention, opening your eyes to opportunities you might have forgotten about or overlooked. *Fortunately, one thing has changed for the better in the last five years – money to finance sound real estate investments has never been so abundantly available at very reasonable interest rates.*

But when I hear about investment gurus hawking their out-of-town VA and FHA investment foreclosure bargains, often to members at the local real estate investor clubs or in newspaper classified ads, I cringe. If these properties, located hundreds of miles away, are such great investments, why aren't the "locals" who live near these incredible bargain properties buying them?

*As always, I suggest acquiring investment real estate within, at most, a one-hour drive from where you live. Please be extremely careful if you decide to put your trust (and money) within someone you just met and don't know.* I can recite names of real estate scam artists who lost big money for their investors – some of them are still out there selling their expensive real estate courses and investment property partnership schemes. However, I must hasten to add there are many "good guy" real estate seminar teachers too – but it's often hard to tell the difference. A sound rule to follow, if you invest money with someone you don't know extremely well, is to be sure it is money you will never need to see again!

**1 – PLAN YOUR STRATEGY.** Why are you reading this report? Are you looking for quick real estate profits by next Friday? If so, you're looking at the wrong investment. Maybe you can earn huge quick profits buying stocks, or perhaps trading commodities such as pork bellies, soybeans, or something else. But, with rare exceptions, unless you plan to hold your real estate profit opportunity at least a year (longer is better), if your strategy is to earn a quick profit, maybe real estate isn't right for you. *Most real estate is a get rich slowly but surely investment!*

**2 – DETERMINE YOUR INVESTMENT ASSETS AND GOALS.** If you're broke, have no cash for a down payment, have a lousy credit report, and are unemployed, it will be more difficult to benefit from today's real estate opportunities than if you have a modest cash down payment, good credit, and a solid source of income (other than welfare) so you can make profitable real estate purchases.

But don't give up. The best real estate investments I ever made occurred when I was just starting out but had strong real estate investment goals. Whatever your personal situation, you can succeed with real estate too.

Having invested in real estate and "hung around" successful real estate investors most of my adult life, I've seen and heard about most types of good and bad real estate investments. A special benefit of teaching real estate law classes at our local community college for almost 30 years is I've met hundreds of wonderful students who share their success (and sometimes failure) experiences. Many of my students didn't realize all their opportunities.

In my opinion, too many real estate agent students focus on selling real estate to earn quick sales commissions, but they fail to see their long term realty investment profit potentials are much bigger. Other students were totally "unfocused" dreamers who have pie in the sky ideas but no practical plans to implement their dreams.

**EXAMPLE:** Last semester's class included a nice young man who told me he wants to buy run-down shopping centers and office buildings to earn profits turning them around. When I asked what real estate he already owns, he said he didn't own any real estate yet. My suggestion was he start out small, perhaps fixing up a few run-down houses and small apartment buildings to gain experience. I've learned it's best to make a small mistake on a small property than to make a big mistake on a big property where the financial consequences can be devastating. Even Donald Trump makes big real estate mistakes. But, so far, he has been able to recover from them. Most of us aren't in that high-stakes league (and don't want to be!).

**3 – YOU CAN DO IT HERE!** Lastly, let's get out of our minds the "you can't do that here" attitude. I've been hearing that remark ever since I began investing in real estate when I bought my first property for \$28,000 in Redwood City, California. My friends thought I made the biggest mistake of my life buying that triplex with a \$5,000 down payment borrowed from my parents (yes, I paid them back!). When I bought my current home for the then outrageous price of \$207,500, the chairwoman of the Real Estate Department at the College of San Mateo, where I had just started teaching, thought surely I would be filing Chapter 7 bankruptcy within weeks. Today, my home is worth many times my purchase price.

**EXAMPLE:** Just a few weeks ago, one of my best friends showed me his latest real estate project. He bought a run-down house in a good neighborhood for about \$400,000 and spent \$60,000 beautifully remodeling it. Today, it is worth at least \$600,000! Not bad for about six months of work. I realize those numbers scare lots of readers who are fortunate to live in less expensive communities. But the point is you *CAN* earn real estate profits where you live, even if you live in an expensive area. If your community has lower real estate costs, consider yourself very fortunate because you don't need much money to start.

**WHAT ARE TODAY'S BEST REAL ESTATE OPPORTUNITIES?** Now let's shift attention to today's best real estate profit opportunities. Some will surprise you. You might disagree. *But when you find an opportunity that interests and excites you, act on it!*

Don't let your friends and relatives discourage you. Politely listen to them. However, unless they are successful real estate investors, don't put much faith in their well-intentioned advice. *When somebody gives me unsolicited advice, I've learned to listen while considering the source.* If they are smarter and more successful than I am, I place high value on their suggestions. But if they aren't yet successful and don't have much experience in real estate, I consider the source! Now let's discuss today's five best real estate profit opportunities:

**1 – YOUR PERSONAL RESIDENCE.** Did that surprise you? If you don't already own your own home, what are you waiting for? *Home mortgages have never been easier to obtain.* Even if you don't have perfect credit, mortgage lenders offer "sub-prime" loans for your situation. However, if you have bad credit, no down payment, and no job, that might be a problem!

Sound, well-located single-family detached houses have proven to be the best long-term investments. *On average, they have been appreciating about 5% every year.* Ho-hum, you reply! But 5% is a tremendous annual yield if you make a cash down payment of 20% or less, like most home buyers should and do make. The reason, of course, is leverage!

**EXAMPLE:** Suppose you buy a \$200,000 house with a typical 10% cash down payment of \$20,000. If you can get an 80% first mortgage and a 10% second mortgage (also called a home equity loan), you will avoid the dreaded PMI (private mortgage insurance) premiums that can be very expensive. PMI protects the lender (not the home owner) and is hard to remove when your equity grows. Avoid PMI if possible. Now let's suppose your \$200,000 house appreciates just 5% in market value during the next 12 months. That's only \$10,000, meaning your home will be worth \$210,000 a year from now. That's not very good, is it? Yes, it is! That modest \$10,000 profit is a *tremendous* yield of 50% on your \$20,000 cash investment. Where else can you do as well while enjoying a nice place to live? Even if your monthly housing cost is a bit higher than it costs to rent a similar house or apartment, please remember (1) the probable 5% annual appreciation in market value, plus (2) the income tax savings from your itemized mortgage interest and property tax deductions.

In the last few years, many condominiums and townhouses have seen an increase in their annual appreciation rate that traditionally lagged single-family houses. But because of all the potential problems with condos, which single-family houses usually don't have, I can't recommend condos as primary residences if you want to maximize

profits from appreciated market value. More details are in my special report “How to Avoid Buying a Bad Condo (or Co-op).”

**2 – RENTAL HOUSES.** After you have acquired your personal residence house, why not own several? But please don’t misunderstand – I suggest owning one or more rental houses near your principal residence. For details, please read my special reports on how to maximize profits from rental houses, especially “How to Invest With Little or No Cash in Rental Houses for Fun and Fortune.”

But I do not recommend buying a second or vacation house in a vacation area. The reason is vacation homes cost money to maintain, especially if left vacant, and they often decrease in market value if there is no strong local demand from other buyers in the community. I can cite you many examples of vacation homes in areas of primary summer (or winter) use which have lost value because (a) the popularity of the area shifted to other “in” spots and/or (b) there was over-building, causing a glut of houses to come on the market, thus depressing sales and rental prices. If you buy a house in a vacation area, thinking you will rent it to tenants when you aren’t personally using it, please research the rental market very carefully and be aware of the high risk.

**EXAMPLE:** I have friends who own a second home near Lake Tahoe that they rent for \$2,000 or more per week during the summer and winter tourist seasons. But the rest of the year, the house is usually empty. Yes, they have a local rental agent who is supposed to check out the tenants and get security deposits. But the owners have incurred high repair and utility bills after four to eight people rent their property for a week or two. Insurance has also been a big expense because they filed several claims and were cancelled by one insurer. However, thankfully their vacation property has appreciated in market value!

Traditional rental houses, held for at least five years, have proven to be superb real estate investments in most communities. But in the last year it has been very difficult in many areas to find good tenants because it has been so easy for prospective rental house tenants to instead become home buyers, thanks to low mortgage interest rates. That’s why many rental house owners have begun offering their houses for rent with lease-options. There’s always strong demand for lease-options, when properly marketed. For details, please read the special report “How to Profitably Use a Lease-Option to Buy or Sell Your Home or Investment Property.

**3 – FIXER-UPPER HOUSES AND INVESTMENT PROPERTIES.** Perhaps fixer-upper houses offer today’s greatest profit opportunities. *The same profit principles, but usually involving more investment cash, also apply to fix-up shopping centers, apartment buildings, and commercial buildings.* High-risk fixer-upper properties include office buildings, warehouses, and other special use properties where tenant demand is currently extremely weak in many areas.

Having written about fixer-upper house opportunities, based on personal success stories, long-time loyal subscribers are probably tired of reading about them. However, I

cannot over-emphasize the profit potential of the right kind of fixer-upper houses. *By “the right kind” I mean sound, well-located but run-down houses which need cosmetic fix-up to increase their market values (such as the example of my friend’s \$400,000 house which, with \$60,000 of improvements, is now worth well over \$600,000).* Cosmetic non-structural fix-up work includes painting (the most profitable improvement of all because it adds far more market value than the paint and labor cost), cleaning, repairing, landscaping, and recarpeting. Kitchen and bathroom remodeling can also be profitable if the costs are not excessive.

Often, all that is needed are new kitchen cabinets, flooring, and appliances to add substantial market appeal to prospective buyers and/or tenants. By the way, the latest “style” in kitchen appliances seems to be brushed-steel fronts which look superb. They often aren’t much more expensive than ordinary appliances. But they sure make a small ordinary kitchen look extremely attractive.

The old “Nickerson formula” of spending \$1 to add \$2 in market value is a worthy goal for fixer-upper properties. If you can purchase the fixer-upper property at a bargain price, you can do even better. An advantage of buying fixer-uppers is most other buyers don’t want them so there isn’t as much competition as for a fixed-up house in top condition. *However, avoid fixing incurable defects, major renovations, and room additions. The reason is such improvements often cost more than they add in market value.*

Sometimes, it becomes necessary to add unprofitable but essential improvements, such as a new roof. *Just figure the necessary but unprofitable expense into the fix-up cost.* But purchase of a property needing major expensive improvements that will add little or nothing to the market value of the property should be avoided.

**EXAMPLE:** The house on the hill above my home had a settlement problem which caused cracks in its walls. The elderly owner lived with the problem and did nothing about it. After he died about 18 months ago, the house was sold to a contractor at a price about 30% below what that house would be worth in excellent condition. The contractor then wasted at least \$100,000, probably more, installing drains and shoring up the hillside to prevent future erosion. But the money he spent didn’t improve the market value of the property because the improvements he had to make are unprofitable improvements. It is still an old house in need of at least \$100,000 more fix-up work. Because no work has been done on that empty house for the last four months, I suspect the contractor realizes his mistake buying that property which needed major unprofitable work that was expensive but added nothing in market value. We curious neighbors are trying to figure out if the contractor has abandoned the house or if he will eventually resume fix-up work. This is a classic example of a fix-up property with incurable defects, correctable only at great expense, which should be avoided. The solution? He should have bought at a super-bargain price, bulldozed the house, and started fresh.

The general criteria for a profitable fixer-upper house or other property are (a) good location, (b) sound condition without major structural defects, (c) needs cosmetic fix-up, (d) can be bought at least 25% below the market value of comparable nearby properties, (e) a highly motivated seller who will be reasonable as to price and terms, (f) affordable financing, preferably from the seller, taking over existing mortgage financing, or a bank credit line, (g) either vacant or occupied by the seller or a tenant who will vacate during renovations, (h) within a 30 to 60-minute drive from your home or office, (i) strong demand for the property in fixed-up condition, and (j) if a single-family house, located in a good quality school district where families want to live. A good new book to read on this topic is **Buy Low, Rent Smart, Sell High** by Scott Frank and Andy Heller, available in stock or by special order at local bookstores, public libraries and [www.amazon.com](http://www.amazon.com).

**4 – FORECLOSURES AND OTHER DISTRESS PROPERTIES.** If you understand the basics of real estate investing and are interested in acquiring foreclosures and other distress properties at steep discounts of 20% to 40% from retail or market value, this specialized property type offers superb profit opportunities – and some risk! Depending how you count, there are three or four basic foreclosure profit opportunities:

**A – THE REINSTATEMENT PERIOD.** After a homeowner or commercial property owner defaults on their mortgage or deed of trust, the first foreclosure step the lender takes is recording a Notice of Default or filing a judicial lawsuit (depending on state law and whether a mortgage or deed of trust is being foreclosed).

Before this “public notice” is recorded, sometimes called “pre-foreclosure,” many defaulting property owners try to sell or refinance their property to salvage at least some of their equity. This can be a tremendous profit opportunity if you can learn of the default before the lender records the official notice.

After the official reinstatement period begins, the borrower usually has three to six months (depending on state law) to take action before the actual foreclosure auction sale. However, in a few states, the reinstatement period is only about a month. *The biggest chore for foreclosure property buyers is tracking the defaulted properties and contacting the defaulting owners to learn if they are willing to sell.*

My experience has been many of these people aren’t thinking straight. The primary foreclosure causes are divorce, drugs, alcohol, unemployment, and family problems.

Although you might be thinking it is unfair to take advantage of owners who are about to lose their property, somebody profits from every foreclosure and distress property – that person who benefits might as well be YOU! *But the big drawback for investors is it takes W-O-R-K to track foreclosures.* Some folks just aren’t good at keeping records of which properties are in default, their market value if in good condition, the amounts owed on first and second mortgages plus other liens, the owner’s name and contact information, and other details. However, many foreclosure buyers love

the “hunt” to track and buy these properties direct from the defaulting owners far below market value before the property goes to the public foreclosure sale.

**B – THE FORECLOSURE AUCTION SALE.** Depending on state law, the actual foreclosure auction sale is either a judicial sale supervised by a judge, sheriff or court-appointed referee, or a non-judicial trustee’s sale held by a private party “trustee” who is the foreclosing lender’s representative.

The big disadvantage of buying at these auction sales is cash is required – either at the sale or within a few days thereafter. Many prospective bidders just don’t have the cash required to buy at this step in the foreclosure process. *However, the big advantage of buying at the foreclosure auction is any junior liens, such as a second mortgage, are wiped out by the foreclosure sale on a senior mortgage.*

**C – BUY AFTER THE FORECLOSURE SALE FROM EITHER THE SUCCESSFUL HIGH BIDDER OR THE FORECLOSING LENDER (IF THERE WERE NO BIDDERS).** Personally, I’ve had good experiences buying from high bidders, who usually want a quick profitable resale and will often help finance their buyer’s purchase. Also, I bought several foreclosed properties that the foreclosing lender took back because there were no bidders at the foreclosure sale. These institutional lenders financed my purchases (although some lenders want all-cash sales and refuse to offer special financing for their buyers).

**Where to learn more about foreclosure opportunities.** In many areas, it is now possible to learn on the Internet about foreclosure purchase opportunities at bargain prices. One website is [www.foreclose.com](http://www.foreclose.com); another is [www.foreclosurefreesearch.com](http://www.foreclosurefreesearch.com). But the best resource I’ve found is [www.foreclosures.com](http://www.foreclosures.com), owned by Tim and Alexis McGee. Their materials are excellent, with foreclosure information available for most states, REO (real estate owned by lenders) links, a \$49 beginner foreclosure course, and an intermediate course for \$499. They also explain local sources of foreclosure property lists, including their own e-mailed foreclosure lists for California.

If you haven’t already read my report “How to Profit from Foreclosures and Other Bargain Distress Properties” it contains lots of my foreclosure buying experiences and suggestions. Two good books to read are **Goldmining in Foreclosures, Fifth Edition** by George Aschenbach and **Making Big Money Investing in Foreclosures Without Cash or Credit** by Peter Conti and David Finkel.

**5 – FLIPPERS.** The last of today’s best real estate profit opportunities are known as “flippers.” These might be fixer-upper properties, foreclosures, or properties you acquire at an incredible below-market purchase price, perhaps because the seller wants a quick, clean, cash sale. Some investors have become adept at acquiring these properties and reselling them at a profit within a short time, usually less than six months. That’s why they are called “flippers.”

The biggest drawback of “flippers” is the resale profits are taxed as ordinary income. However, if the property is held over 12 months, then it qualifies for the much lower long-term capital gains tax rate, currently a 15% maximum on federal income tax returns.

Another flipper disadvantage is there is no future profit potential because the property has been sold. Many investors flip some properties for quick cash and hold others as long-term investments. Two good books to study on this topic are **Flipping Properties** by William Bronchick and Robert Dahlstrom, and **The Complete Guide to Flipping Properties** by Steve Berges. Both are available in stock or by special order at local bookstores, public libraries, and [www.amazon.com](http://www.amazon.com).

**SUMMARY.** Today is an especially good time to invest in the five best real estate profit opportunities: your personal residence, rental houses, fixer-upper properties, foreclosures and other distress properties, and “flipper” properties. As always, study and investigate carefully before purchase to maximize your profit potential.

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