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Flat House Share Brings A Real Estate Formula

Written by: Steve Gillman

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It was a simple real estate formula. The ads ran in our small-town newspaper for years before I realized exactly what was going on. They were always the same: A house for sale with 5% down and payments of 1% of the purchase price. Maybe a three bedroom home for \$90,000, for example, with \$4,500 down and \$900 per month payments.

When a friend started doing the same thing he explained the process to me. It was a way to get a great return on capital, and it was the opposite of buying with no money down. There is no down payment at all when you buy, because you buy for cash.

The Simple Real Estate Formula

You probably know that when you buy for cash, you can often get a much better price. With no financing contingencies in the offer, and the promise of a faster closing, sellers are willing to sell for less. You can offer \$95,000, for example, on a house that might be worth \$108,000. If you can't get it for less than, say, \$99,000, you walk away - there are always other opportunities.

Once you buy the house, you put few thousand into high-return repairs and improvements. These might include paint, carpet, and maybe asphalt for a dirt driveway. For our example, we'll say you spend \$5,000. Let's suppose the house is worth \$116,000 now. You're ready for the next important step in this real estate formula.

You put it up for sale, targeting buyers who can't get financing easily. You provide the financing. Because you are making it easy for the buyer, you can get more than the \$116,000 value for the home - and do it without paying a realtor's commission. Let's say you sell it for 123,000. The buyer needs a down payment of just 5%, or \$6,150, and makes monthly payments of \$1230 per month. You charge higher interest than the going rates at the banks, of course.

This is a win-win situation. Your buyer is able to buy a home instead of renting, and you get a capital gain of perhaps \$16,000 after expenses, plus good interest. Your total rate of return will often be over 20%!

In our town, the first to do this consistently were a father and son team of lawyers. They saved money by doing their own foreclosures when necessary. Once they foreclosed, they raised the price and sold the home all over again.

They made millions. Did you know that if you can get an average return of 18% on your money, you'll turn \$75,000 into more than one million dollars in about fifteen years? That's the power of a good real estate formula.

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