Stewardship Properties'
Investment Team Handbook

Stewardship's Dress Code… at least once during the year on "Formal Friday"

Handbook written by the Class of 2005 "Returns"
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Real Estate Purchasing Strategies

Stewardship Properties is a real estate investment firm which currently invests for the long term. Most real estate investors agree that the profit is made at the purchase. Since Stewardship Properties typically resorts to the buy and hold strategy, many people assume that we can purchase property at market value and ride the inflationary wave until we achieve an equity position. As investment analysts we prefer to purchase a property with an equity position from day one and continue to add value throughout our possession of the property, whether we intend to hold or quickly turn the property.

In order to purchase a property with a suitable equity position, it typically involves a motivated seller who has special criteria to be met. We have seen such a wide variety of situations and they each require a variety of strategies in order to achieve a win/win agreement. We are able to offer a variety of strategies and knowing each of them in detail allows us to provide better service for our clients. Once we have identified the needs of a seller, it is time to compile a list of potential routes to pursue.

Each purchase strategy can be applied in many different situations but I will cite a specific example if it is a strategy that we have used in past transactions. The strategy to be used will be identified based on the needs of the seller. Occasionally we come across a seller who would prefer to live in their home once we purchase the property. We have also been presented with sellers who have equity that they would like to lend back towards the purchase. Each situation necessitates a unique strategy and many times the strategy is dictated by the source of funding that is to be used.

The source of the funding and the terms of the transaction can become more influential than the price of the property. The funding dictates the cash flow situation and the cash flow is near the top of the priority list when analyzing an investment property. The source of funding is the building block for the negotiation process. The following sections will identify the most common purchasing strategies and they will be differentiated by the source of funding.

Subject To Existing Financing

One of the most desirable purchasing strategies is to purchase a property by utilizing the seller's existing financing.

The advantage of this strategy is that the buyer will not need to secure the funding for the property through cash or any other lender. This strategy saves time because of the lack of an appraisal and it also saves capital by avoiding closing costs for a loan. Occasionally, sellers have loans that were refinanced within the last three years and have existing financing with desirable rates.

The difficulty associated with "subject to" financing is that many loans are not assumable. Another disadvantage is that some sellers would prefer to remove their names from the loan to avoid the liability but if they transfer names it will typically trigger the due-on-sale clause which forces the balance to be paid in full.

A way to overcome the disadvantages is to purchase the property through a land sales contract. This maintains the existing financing but it places the deed in the control of a third party. The involvement of the third party is to the advantage of both the buyer and the seller. The buyer will be given the deed once they follow through on the criteria that were established within the agreement. The seller will take comfort knowing that the third party will be documenting the payments from the buyer.

An example of a purchase where we utilized the "subject to" strategy was on the purchase of the Moyer St. property in Elmira. The agreement was based on a land sales contract. The seller was willing to keep his name on the loan in order for us to take possession of the property. The plan is to bring the structure into compliance with the county code and then financing will be secured through a conventional lender. The deed will be transferred into the Syrios trust as soon as the loan is funded and the pre-existing loan can be satisfied.

Lease with the Option to Purchase

Utilizing the lease/option strategy is a way to give the buyer multiple options. The buyer typically pays a monthly lease payment in exchange for the rights of ownership of the property. In addition to the lease, the buyer will also negotiate a purchase price and a deadline to exercise the option to purchase the property. The lease/option strategy is a more creative strategy than the standard real estate transactions.

Buyer's Side of Lease/Option Agreements

The advantage for the buyer is they have time to market the property as an attempt to sell the property for a higher amount than their purchase price or possibly sandwich lease the property to another tenant. If the buyer has a difficult time finding someone to purchase the property, they are only at a loss for the monthly payments instead of the much higher costs of closing and carrying the financing on the property.

The disadvantage for the buyer is they will be spending money every month whether they have a tenant/buyer or not. The buyer will also be responsible for marketing the property to potential buyers, tenants, or tenant/buyers.

We have been on the buyer side of a lease/option agreement on the W. 18th property in Corvallis. We negotiated an 11 month lease where we are responsible for making the seller's mortgage payments beginning the third month of the lease. In addition to the monthly lease payments, we are also responsible for the marketing expense. We have negotiated a low strike price which leaves room for a buyer to purchase the property and for us to be paid for our service. We are also trying to rent the property in order to cover our monthly expense and make the property a more desirable purchase for an investor.

Seller's Side of Lease/Option Agreements

The advantage for the seller is they will earn an option fee (down payment) up front, a monthly cash flow, as well as a lump sum of cash once the tenant/buyer follows through with the purchase of the home. Typically the tenant/buyer will be more desirable than the average tenant due to the fact that they are experiencing the pride of home ownership.

The disadvantage for the seller is the difficulty of finding the tenant/buyers and carrying a vacant property until the property is occupied.

We have begun compiling a database of potential lease option tenant/buyers. We have done this by advertising two properties in the classified ads in the newspaper as well as Craig's List. There appears to be some interest in this region for lease/option property and hopefully someone will follow through soon.

Cash Purchase

Having the ability to make a cash purchase provides many opportunities for the buyer and seller. The cash purchase applies to any seller who does not have the time for a buyer to secure conventional financing or a seller who has a property that does not qualify for conventional financing. The ability to pay with cash also allows a buyer to take advantage of short sales. Once the price is negotiated, the bank wants to be paid in cash if they are going to take a discount on the defaulted loan.

The advantage of using this strategy is to be able to close a transaction quickly. Most sellers in foreclosure need a quick sale in order to rescue their property from going to auction. The ability to pay all cash tends to cause the seller to be more flexible. Having the ability to pay with cash allows the buyer to purchase discounted property in pre-foreclosure, or at the auction. The cash will also help influence a lender to take a discount on a defaulted loan if they know you can act quickly by cashing out their loan. Another advantage is that there are no carrying costs in the nominal sense because there is no financing involved. This still translates into a cost considering there is an opportunity cost of the capital that is being invested into that property.

The disadvantage of using an all-cash purchasing strategy is that the buyer is forbidden from taking advantage of one of the most powerful aspects of real estate investing, leverage. The deals need to have a larger profit margin because of the fact that the return on investment, in terms of cash, will be substantially decreased in the absence of financing.

We have used cash for both of the properties that we have purchased at the foreclosure auction (Darlene and Fillmore). We have also used cash to purchase a pre-foreclosure property (A. St.).

Conventional Financing

Conventional financing is the most common purchasing strategy. This strategy requires a lending institution to secure financing in order to purchase the property.

The advantage of this strategy is that it allows the buyer to leverage their capital in order to acquire much more property than if the property was purchased with cash. The rates for conventional lending are favorable and you are sharing the risk with the lender. Another advantage is that the lender is able to loan up to 106% of the value of the property in order to wrap the closing costs and repairs into the loan.

The disadvantage of using conventional financing is there is a qualifying process. The property has to qualify in terms of value and condition in order for the lender to place a loan on the property. The person applying for the loan also must qualify. Another disadvantage is that it takes time for the lender to go through the qualification process. A loan can be made within two weeks through a conventional lender but it typically takes 30 to 45 days to get a conventional loan funded.

The most recent example of Stewardship Properties using conventional financing is for the acquisition of 1400 Holly and 1220 Hughes. Time was not preventing conventional financing and both properties qualify for financing in their current condition.

Private Financing

Private financing involves an individual who is willing to loan money to a buyer, in order for the buyer to acquire the property.

The advantage of private financing is the loan can be funded more quickly than conventional financing. The qualification process is more based on the property than the individual. It also allows the buyer to remain leveraged instead of using cash.

The disadvantage of private financing is the cost. The rates are less favorable than conventional financing and it typically requires more points than a conventional loan.

We are attempting to use private financing on A. St. in order to use that capital to fund our growth and expansion. Conventional lenders are requiring a seasoning period before they will fund a loan on the property and we would rather have our cash out of the property instead of trapping the capital throughout the seasoning period.

Seller Financing

Seller financing is similar to private financing because it is still a private individual who is loaning the money instead of an institution.

The advantage of using seller financing as a purchase strategy is there is no qualification process. Another advantage is it is easier to negotiate a lower rate through seller financing than private financing and the closing costs are minimal.

The disadvantage of using seller financing is the rate will be typically slightly higher than conventional rates.

An example of seller financing is through the purchase of the 2442 Liberty Adult Foster Home in North Bend. We will secure a 75% LTV loan and the seller will provide a second mortgage for the remaining 25%. The terms for the second are more favorable than a conventional loan because the loan will be for 8%, interest-only payments with a balloon in 5 years and no closing costs or points. Utilizing seller financing in this transaction allows for a no-money-down purchase.

The main advantage and disadvantage of each strategy has been identified which proves that each purchasing strategy has its own application. Having the knowledge of the different services we can offer will allow us to be more creative and assist motivated sellers in liquidating their real estate burdens.

Marketing and Advertising

Marketing for Stewardship Properties involves spreading the word that "We Buy Houses" to potential sellers as well as investors, realtors, lenders and other partners. Stewardship has two marketing programs working simultaneously to capture as large a share of the market as possible. They are:

- Guerilla Marketing
- Brand Marketing

Guerilla Marketing

Guerilla marketing is focused on either pinpointing individuals in situations that might entice them to sell for under market value or putting up simple, cheap advertisements that many will see. The key to guerilla marketing is that every method should be cheap and cost effective. The main methods of Guerilla Marketing are as follows:

- Letters and driving for dollars
- Bandit signs and car decals
- Bulletin board, car fliers and door hangers
- Newspaper Ads

Letters and Driving for Dollars

The main way Stewardship connects to potentially motivated sellers is through mass mailings. Stewardship mails to pre-foreclosures, probate, meth houses, evictions, out of state absentee owners and apartment owners, most of these lists are found through Western Pioneer Title, except probate is through the Register Guard obituaries and evictions are through the county. Stewardship also mails to the owners of houses found while driving for dollars. Driving for dollars houses are houses that look to be vacant or in such a state of disrepair that the owner is likely willing to part for the house for under market value. Stewardship employees take time to drive around neighborhoods looking for such houses. Stewardship would like to also mail to divorces, but has yet to find a list.

Once a property has been found through driving for dollars, probate or eviction the owner must be looked up. This is done by going onto fastweb at https://fwprodweb1. / firstam.com/fastweb/fastorder propertylookup.asp. Then type in the property and it will give the name of the owner and other pertinent information about the property. Then this data should be entered into the ACT database (see database management). Finally, using the mail merge feature in Microsoft Word, transfer the owners' names into the letters for whatever particular mailing we are making. Each type of situation has a specific letter for it (some like pre-foreclosure have more than one) to appeal to the potential sellers circumstances. The mailing times are as follows:

- Pre-Foreclosure – 8 mailings over 3 months – 5 letters, 1 postcard – some variety
- Probate – 3 mailings, once a month – First mailing should be 3 months after obituary
- Meth House – No established criteria as of yet
- Evictions – 2 mailings, once a month
- Out of State Absentee – One mailing with each list
- Apartment Owners – One mailing with each list
- Driving for Dollars – 2 mailings, once a month

*Subject to change

Bandit Signs and Car Decals

Bandit signs are signs that simply say "We Buy Houses". It is against a city ordinance to put these signs up, but it is accepted for realtors to do so, so Stewardship approaches this in the same way as realtors. Bandit signs can be put up legitimately in front of properties Stewardship owns and on company vehicles. This should be employed, but bandit signs on sticks can be put up around realtor signs and are especially effective near houses in pre-foreclosure. Bandit signs may also be put up on electrical poles during the weekends. EWEB is the primary source of complaints for putting up bandit signs, because they don't want them on their poles, but over the weekend they are not likely to complain. Car decals also work well on the back of company vehicles and paying people to put them on their cars should be considered.

Bulletin Boards, Car Fliers and Door Hangers

These are pretty self explanatory. The intent is to design an attractive looking flier that highlights what we do in a few words (We Buy Houses for example). Then we post those on bulletin boards in local businesses and smaller versions on cars in parking lots. Bulleting board fliers are better with tear offs, and always remember to tear off one or two for implied value. Door hangers are a little trickier because you don't know whether the person owns or rents the house. Door hangers are best to use with houses in pre-foreclosure.

Newspaper Ads

Newspaper ads can fall under both guerilla and brand marketing depending on the implementation. Most of Stewardship's ads are pointed at simply looking for potential sellers. The only ad Stewardship runs that is building the brand image is in the weekend Register Guard when our logo is added to a "we buy houses" type ad. Currently we are advertising in the following papers:

- Register Guard (4 ads)
- Springfield News (display ad and classified)
- Cottage Grove Newspaper (display ad and classified)
- Creswell Chronicle
- Corvallis Gazette
- Albany Democrat-Herald
- Nickel Ads (display ad and classified)
- Money Saver (display ad)
- The Valley Apartment Manager

Brand Marketing

Brand marketing is more expensive than guerilla marketing because it usually involves paying someone else for advertising space. The main difference between it and guerilla marketing is that brand marketing's main intention is to build awareness of the company and what we offer. Where guerilla marketing predominantly looks for individual sales, brand marketing is primarily attempting to build top of mind awareness among potential sellers and future potential sellers. Brand marketing can also attract short term sales as well, but its worth the extra cost because of the ability to leverage your marketing. The main methods of brand marketing Stewardship uses are:

- House Truck
- Billboards
- Radio, TV, Newspaper Advertisements
- Press Releases
- Business cards

House Truck

The house truck Stewardship created shows our symbol and spells out our service very well. It is also impossible not to look at as it drives by. Making good use of the house truck is key. Ways to do so are driving it around town and parking in areas many people will see. Near Autzen Stadium before Duck games or in front of Stewardship's storage building in Glenwood during the weekdays when people going between Springfield and Eugene will see it are possible ideas.

Billboards

People drive by billboards a lot, and while they don't appear to get a lot of potential buyers to call in, they do appear to have a large effect on brand awareness. It is important the billboard designs highlight Stewardship's name and symbol.

Radio, TV and Newspaper Advertisements

While Stewardship only employs newspaper ads, the others may use in the future. For the most part, Stewardship has mainly used newspaper ads for guerilla purposes. But all these mediums give an opportunity for Stewardship to emphasize its brand and build top of mind awareness in the community.

Press Releases

Press releases are a useful way to get Stewardship's name out in the community through local media outlets. The great part about press releases is that they are free. The problem is once the media outlet has done, they have complete control over the story. While we have asked in the past, no one has yet published our phone number with the story.

Business Cards

Business cards are cheap and very effective. While it is good to leave a stack of business cards in businesses that allow that, but they are mainly for business partners and potential sellers. Whenever meeting with a realtor, lender or anyone else like that, make sure to introduce yourself, talk to them and give them your business card. The same goes for potential sellers. We want them to remember us, feel good about us and have something to look us up with in the future.

Overall

While these are the techniques and methods we have used they are in no way the only or best way to do it. While we have designed fliers and written letters, they are in no way the only or best fliers or letters to have. Everything should always be under review and everyone should always be thinking of new ways to market Stewardship to potential sellers. While the strategy will revolve around advertising our message in guerilla and brand marketing techniques, there are many ways to go about this. And it should also be noted, that the overall strategy should even come under review from time to time.

Property Analysis

Property Analysis could be the most important aspects of the investment department of Stewardship properties. There is always real estate for sale, but it is our goal to only buy real estate that will be profitable by way of equity, cash flow, and/or potential. In real estate investment, one often will hear the phrase, "You make your money when you buy." In real estate, the easiest way to minimize risk and make money is to buy property that has more value than what one has already paid for it. There are three main ways that Stewardship Properties analyzes real estate.

- Market Value Analysis
- Cash Flow Analysis
- Potential Value Analysis

Property Valuation

Property valuation is probably the most important aspect of real estate investment. Real estate value is tied extremely close to its location and therefore it is critical to learn the market before invested in it. Unfortunately, there are no formulas to evaluating real estate. Comparable sales are the best way to judge value, but there is still a lot about real estate investment that is subjective. So Stewardship Properties tries to gain as much information as possible before making investment decisions. Stewardship goes about valuing property in the following manner:

1. Gather Information (from seller, realtor or etc.)
2. Check Information (valuation websites, realtor comparables, etc.)
3. View Property and Comparables (evaluate condition, location, etc.)
4. Establish Value (market value, personal value, etc)

Step 1: Gather Information (from seller, realtor, etc.)

Whenever a potential seller calls in, it is important gather as much information as possible. General information such as the number of bedrooms and bathrooms and the square footage should be determined. More specific information about the existence of dry rot, the quality of the neighborhood and is the plumbing galvanized should also be asked. It should also be noted that viewing properties is very time consuming. If we realize that the seller is unmotivated and the deal is no good, it is good to stop this process here before it goes any further.

Although a lot of the information we look for can be found on websites, it is still important to ask the potential seller as much as possible for three reasons, though. 1) these websites are not always completely accurate, they often lack information about additions, 2) some things the seller says are subjective (like neighborhood quality) or are not on these websites (like how much they owe) and 3) it is important to involve the seller as much as possible in the process. Telling them we got all the information of a website would make us seem “too professional”. A list of questions to ask sellers is in Appendix _. If the lead is gained through another method, such as realtor or a newspaper ad, it is still important to gain as much information as possible from them. Either ask these questions to the realtor (with the exception of how much the seller owes) and if it is an ad, call the seller and ask the same questions. If the lead came from a notice of default, that notice should be looked at carefully as it will contain valuable information such as the loan amount and who is holding liens against the property.

Step 2: Look through property valuation websites and realtor comparables

There are several websites and other ways to gain important information about the house. Although the websites can lack recent updates, they offer a lot of important information and are very useful. Websites we use are as follows:

Fastweb - https://fwprodweb1.firstam.com/fastweb/fwlogin.asp
RLID – www.rlid.org
Zillow – www.zillow.com

Fastweb and Zillow have comparable sales to look at along with other information like tax maps and neighborhood statistics. RLID does not have comparable sales and is limited to Lane County, but it does have much more detailed property information. RLID, along with the other sites have the properties’ tax value, but these are almost always very conservative.

There are several other sources that we can look at to gain information about the property such as realtor comparables. Comparative analyses done by realtors are much more detailed than those on Fastweb or Zillow, but they usually require a realtor to be involved with the purchase. They can also be biased, as the realtor wants the house to be sold.

Step 3: Drive by property and fill out property valuation sheet

Step 3 and step 4 can be meshed together or separated depending on how we received the lead. We will be unable to view the interior of leads we received by notices of default if the owner hasn’t contacted us. So all we can do is drive by the property and rate things such as the roof, windows, foundation and neighborhood.

Step 4: Walk through property

If the owner has contacted us, we need to view the interior carefully as well. While walking through the property we must be as observant and ask as many questions about the property as possible. Look at the carpet, kitchen, appliances, floor plan, wallpaper, paint, etc. Look for key problems like damaged areas, dry rot, poor remodeling, etc. It is also important to look for under utilized or poorly utilized space. For example, if the property is in a campus neighborhood, cutting a big room into two would allow us to charge more rent for the house.

The way we ask questions depends on whether or not a realtor is involved or not. If a realtor is, they can probably give you ideas to improve the house and it is important to try to add them as a contact. Even if we don't purchase this property, we want them to bring us future leads. If we are dealing with the owner themselves, we want to build a repoire with them while getting as much information about the property as well as their bottom line. Intermixing casual conversation with questions helps accomplish both of those things.

Step 5: Look over financial information and other pertinent factors

After all the quantitative and qualitative information has been gathered, it is time to put it together. It is helpful to involve more than one person in this process as two or more people can build upon each others ideas. First, we want to begin with the end in mind, so we have to determine the best use for the property after purchase. Do we want to rent, sell or lease option the property? To figure this out and we must first look at the financials.

We should compare the PITI (principle, interest, taxes and insurance) to the expected rent payments. The question here is how close to cash flowing does it come. We should also look at what we think we could resell it for. What margin does that bring us? And finally, does this property make sense to lease option (usually mediocre to slightly above average neighborhood). If the property is an apartment complex, we need to look at the cap rate (operating income/sale price). This allows us determine if our ROI can justify the investment.

We also want determine if the property is being underutilized. For example, if a big house has few bedrooms or bathrooms, but plenty of empty space, more bedrooms and bathrooms could be added to enhance the value. There is also the possibility that there is another use for the property. Perhaps the lot is big enough to subdivide, or the zoning allows for further development or a residential property can be turned into a commercial one. These things could make the property more valuable to us. And finally we have to look at the ability to which we can implement our post-purchase strategy. We don't want to hold onto a vacant property very long. For example, properties in Oakridge take longer to sell so we need a bigger discount.

Post-Purchase Evaluation

We have developed a system to evaluate properties we have purchased as a control to make sure we are purchasing the best possible properties. The scale ranges from -2 to 2 in .25 increments. That number is multiplied by the sale price to come up with the "asset points" of the purchase (for example, a 1.25 deal X $100,000 sale price = 125,000 asset points). The scale is expanded on the following page:

-2) Terrible Deal – Negative equity and negative cash flow. (These hurt the company and make it difficult to expand into new investments.)
-1) Poor Deal – No equity and negative cash flow. (Time will likely repair these purchases, but they will impede present projects. Many listed houses fall in this category.)
0) Mediocre Deal – Minimal equity (2%-10%). Cash flow is close to even. These are the better listed houses and there are many out there, but they present little margin for error.)
1) Good Deal – Reasonable equity (15%-20%), move the company forward. These are properties we probably wouldn't pass on. (Very few listed properties and takes time to find.)
2) Great Deal – Great equity (>25%) and cash flow. These will make the company prosper. (Properties that even a non-investor couldn't pass on. If listed would be sold the same day.)

This weighted scale allows us to view the quality of our purchases and the volume along with a weighted average for both. While we make a determination about the value at purchase, after remodel and either when it's sold or rented, it should be kept in mind through out the entire valuation process. The question should always be asked, what kind of deal is this? For 2006, we want the average purchase to be a 1.25. So ask, is this deal at the very least a 1. If not we should probably pass on it. Remember it is not our responsibility to buy someone's house; it is our responsibility to make wise investments.

Negotiating

n 1: a discussion intended to produce an agreement

Stewardship Properties' unique approach to negotiating:

✓ Only Win/Win transactions are acceptable

- We do not *need* a seller's property or their terms
- Lead generation is the life force of our company — when we approach a negotiation with a seller, we bring an attitude that there will always be another property

✓ Once a lead funnels through our office, we contact the seller over the phone and the negotiating process begins at this time

  - We want to let them tell us about the property and their situation and then fill in the blanks
  - By the end of the first contact we want a basic rapport with the seller, basic property profile, motivation for selling, ballpark price and flexibility, and if the seller is fairly savvy, planting the seed for seller financing and those types of terms
  - We tell the seller we will need to research the property further and we will contact them again in 48 hours

- ✓ After first contact, we research the property to find our willingness to pay and a scenario that works for us

  - Assess value, put numbers together, and develop different scenarios to structure a deal
  - We do not shoot from the hip with numbers very often, unless it is an obvious slam dunk deal
  - During the research process, you gain a realistic view of the property and help limit the emotion that changes your perspective on the property as you spend more time with the seller
  - Find a solution for the seller's basic motivations of selling the property

- ✓ Touch base with the seller about your research

  - There may be too great a gap between you and the seller about price *and* terms — plus the seller may have no flexibility
  - Offer comparable sales and any solutions you may have for the seller
  - If no equitable agreement is possible at this time, offer to refer them to another real estate professional — if they decline, leave the lines of communication open because time can cause motivation

- ✓ Build rapport and trust through repeat contacts

  - If you and the seller are close enough to a Win/Win, ask for a property tour to meet the seller in person
  - Use conversational negotiation, talking about common interests, experiences, and circumstances with price and terms peppered throughout
  - It is important to be positive about their property but also be realistic about the work that needs to be done
  - Make every effort to meet the seller in person multiple times — property tour, signing release of loan authorization, going to the golf course, going to lunch, visit to our office, etc.

- ✓ Terms could be as important as price

- With the acquisition machine running full boar at Stewardship, creative financing is a must
- Pursue any financing terms like assumable loans, land sales contracts, or sellers carrying back a note on their equity
- Many sellers are comfortable with these options, many are not, and many don't understand the options so we explain them and let them know they are available

✓ Stack the cards in your favor so you can trade with the seller; that means flexibility

- If we bring the ability to close within days, the seller must concede something of value to trade those cards — in price or terms
- The more cards you have, the easier it is to tailor your services to each individual motivation of the seller

End Result:

A discussion that produces an equitable agreement

Negotiating

n 1: a discussion intended to produce an agreement

Negotiating is an important part of any business transaction. Stewardship Properties has a unique approach to negotiating fueled by the belief that only Win/Win transactions are acceptable. Stephen Covey describes Win/Win relationships in the following:

"Win/Win is a frame of mind and heart that constantly seeks mutual benefit in all human interactions. One person's success is not achieved at the expense or exclusion of the success of others. It's not your way, or my way; it's a better way or a higher way."

Perspective

Our goal is to merge this belief with the idea we do not *need* a seller's property or their terms. Lead generation is the life force of our company. We want the biggest problem in our organization to be a mass excess of leads! When we approach a negotiation with a seller, we bring an attitude that there will always be another property. This helps ensure that both parties will walk away feeling good about what has transpired.

Controlling Emotion

Emotion plays a great role in negotiation, especially in real estate. When you meet a seller, their family, and their situation you can become very emotionally invested in the property. The more contact you have with the seller, the more invested you become in the property. We often find that we *could* buy a property and save a person from a bad situation without hurting the company. But, our aim is to acquire property that moves Stewardship forward, instead of simply treading water.

Conversational Negotiation

Once a lead funnels through our office, we contact the seller and the negotiating process begins at this time. We want to make as many contacts with a seller as possible with the hope of building trust. Most of our negotiating "tactics" are simple conversation, with price and terms peppered throughout. Most of the conversation is about common interests, experiences, and circumstances. At first contact, we want to let them tell us about the property and their situation. Almost all of the information we want about a seller and their property are answered through the seller's initial explanation. We want to find out what motivates this person to sell. After we let them speak, we try to fill in the blanks. Beyond basic information such as address, bedrooms, baths, square footage, etc, we really want the seller to throw out the first price. Many sellers, when asked for a ballpark figure of what they're looking to get out of the property, will give a number. A common belief in negotiation is the first one to relinquish a number will "lose." By the end of this first contact, usually over the phone, we want a basic rapport with the seller, basic property profile, their motivation for selling, and their ballpark price. If the seller is fairly savvy, it is a good idea to ask about seller financing and those kinds of terms. This information will allow us to do more research and decide if it is a lead worth pursuing. Sometimes the information the seller gives us is false or our willingness to pay is too large a gap from their ballpark price. If this is the case, the negotiation will end and we'll attempt to refer them to another real estate professional.

Repeat Contacts

If the lead is good enough, the negotiation continues. We make every effort to meet the seller in person multiple times. There are many ways to make this happen. Examples include a property tour, signing release of loan authorization, going to the golf course, going to lunch, going to Florence for a boat ride, and so on. For Stewardship, negotiation is really about building rapport and trust. Repeat contacts are the only way to achieve that. One of our biggest advantages at Stewardship is Stewardship itself. Many sellers are curious why all of these young guys are running around acting as investors. The internship and Stewardship's business plan is very unique. When sellers ask questions about it, they are usually very impressed. If nothing else, it separates us from the other investors they may have seen in the past. Stewardship is not a one man show, buying and selling property from a master bedroom. We like to have sellers visit us at our office, see our employees and property management, and see our operation. All of these ideas provide comfort for the seller and build trust.

Price and Terms Outlined Ahead of Time

The price and the terms that we pursue through the negotiation are always outlined ahead of time. By getting a handle on the numbers before a negotiation goes in depth, it helps you limit the impact emotion has on what you're willing to pay. During the research process of the lead, we try to assess value and a willingness to pay. We do not shoot from the hip with numbers very often, unless it is an obvious slam dunk deal. With the acquisition machine running full boar at Stewardship, creative financing is a must. We pursue any financing terms like assumable loans, land sales contracts, or sellers carrying back a note on their equity. Many sellers are comfortable with that, many are not, and many don't understand the options so we explain them and let them know they are available.

To negotiate effectively, you need to stack the cards in your favor; that means flexibility. That also means an increased ability to trade cards. We have the ability to close within days if the situation calls for it. For that to happen the seller will need to concede something of value and we'll trade cards. We are willing to rent a property back to the seller, even with an option to buy exercised at a date set in the future. For that to happen, the seller will need to trade us something of value. The more cards that you have, the easier it is to tailor your services to each individual motivation of the seller. When you appeal to their basic motivations for selling the property, your discussion will produce an equitable agreement.

Networking

As in all forms of business, Networking is one of the most crucial activates that we can perform to ensure the sustainability of Stewardship Properties. Building strong and productive business relationships allows us to conduct business successfully, efficiently, and most important, repeat ably. Our success in continually meeting new and successful real estate professionals while maintaining strong working relationships with others from which business has been done in the past, allows us develop an enduring company. Stewardship employees want to surround themselves with talented people that bring value to every aspect of this organization, both directly and indirectly. Think of it as building a team that will help you achieve your business goals.

Your Network and Your Business Reflect Upon You

Building a successful business network begins with laying the foundations for becoming a successful business professional yourself. Reputation and character are everything in the business world. At the end of the day, all we have as business professionals is our integrity. It is important to build a reputation of honesty and professionalism. We are faced with ethical decisions almost every day, and subsequently are judged in our handling of these situations. You want to be able to trust all the people in your network as much they want to be able to trust you. Business people who gain an unsavory reputation in the industry often find themselves at a distinct disadvantage. This is because a negative reputation is very difficult to shake. You want to be known from the start as a person who others want to do business with; the type of person who everyone wants on their team.

There are many different types of business relationships that can be useful to the Stewardship employee. A successful real estate investor has contacts in all aspects of business. In the property sales industry, you need to know brokers and agents who can bring you new deals. In the mortgage industry, you need to know mortgage brokers and underwriters that can help you secure financing. In property development, you need to have working relationships with contractors and building material suppliers to complete property improvements. In addition, every real estate employee needs to maintain mutually beneficial relationships with competent professionals such as attorneys, CPA, hard money lenders, insurance brokers, landscapers, developers, title companies, appraisers, inspectors, consultants and other investors. Any person who has been of help to you in the past or you believe can help you in the future is worth getting to know on a professional basis.

Networking Strategies

Strategies for developing and maintaining these relationships vary greatly. They can include taking a business associate out to lunch to look over Stewardship's case study, inviting them into the Stewardship office to see the operation, or simply just exchanging business cards and a handshake. Quarterly newsletters and informative mailings can also be utilized to keep people apprised and informed of some of the new projects or direction we are undertaking. Spend time with these people and get to know them on a comfortable level. You want to build a personal rapport that will distinguish you from others who they deal with on a regular basis. It is just as important for them to think of stewardship as asset to their business. The closer professionally we are connected the, the more fruitful the relationship. An example of this would be us sharing leads for properties we have passed on with a real estate broker. In exchange they continue to be bring us new deals, while at the same time enlisting there services in market research and property valuation. This mutual benefit is what makes these relationships successful.

An important thing to take into consideration is that people in our network are business people earning a living as well. They have families to support and mortgages to pay just like everyone else. They deserve to be compensated for services performed. By paying the attorney his full hourly wage or by offering the real estate agent a full commission, we keep them in business and at the same time gain their valuable services. By not offering a discounted commission or a cut rate, we ensure that they will look to us to do business in the future, and not to a competitor that will pay market rate.

As hard as we all try to treat people with respect and professionalism, sometimes circumstances can cause even the most well crafted business deal to go bad. It's very easy for emotions to come into play when we have a lot of time and interest sunk into a project that fails. When these emotions get the better of us we are often face with the temptation to severe ties with members of our network. As temporarily satisfying as this might sound, it is never a good long term strategy. You have spent time and energy to build a relationship with these people and it would be throwing it all away to burn bridge every time that you feel that you have been wronged. While you will be more wary and cautious in your dealing in the future, you never know when still maintaining a professional relationship could prove mutually beneficial down the road.

Foreclosure Manual

Foreclosure is probably the most profitable segment of motivated sellers that Stewardship Properties focuses their marketing towards. The foreclosure process can be broken down into four stages:

- Default
- Pre-Foreclosure
- Foreclosure
- Bank-Owned.

Stewardship buys most of these in the pre-foreclosure stage. This portion of the manual will explain the four stages of foreclosure in further detail and explain the process we use to purchase them.

Default

Default is when an individual or company fails to make the appropriate payments against their monetary obligations (for our particular situation we look for defaults that occur on mortgages). Typically, a person will remain in default for approximately three months before the lender submits a notice of default. The window of default begins when an individual misses their first payment and ends when the bank issues a notice of default.

It is difficult to market toward the default stage because information in this stage is not available to the public. Any details pertaining to a particular mortgage is privately held until a public notice of default is submitted, and even then the information is still limited to the fact that there is a default. This is, however, a great time to begin negotiating with the seller because there is no other competition.

Pre-Foreclosure

Pre-foreclosure is the period between the date of public notice and the date of auction. Typically the time frame for this period is three months, similar to the default period.

However, the pre-foreclosure is different in that the default has been exposed through the public notice of default.

In addition to mere exposure, the notice of default alerts other creditors that have a secured interest in the property, that it will be sold at auction if the loan is not brought current. Also included in the notice will be an auction date, and the name of the trustee conducting the auction. This is information is less relevant in the pre-foreclosure stage, but becomes important during the foreclosure stage. What is important are the names of the individuals, the property address, and the mailing address of the persons in pre-foreclosure.

Pre-foreclosure fits our criteria for motivated seller because a deadline for action has been set. Therefore, during this time period we implement an aggressive marketing strategy to try and generate phone calls from this particular group. Our strategy includes a total of eight mailings, consisting of five letters and three postcards, to each property in pre-foreclosure. Typically, we will see a response from these people approximately between the third and fifth mailing. For more information and details on marketing to foreclosure properties see the marketing section.

Purchasing pre-foreclosure often demands for more non-traditional methods of purchasing property. The reason being, a typical pre-foreclosure property will have a number of different liens against it that will remain attached to the property through any conventional mean of purchasing property. In other words, all the moneys owed against the property will become the responsibility of the new owner. Therefore, we often have to utilize other purchasing strategies such as short sales and assignment of rights. (For more information on alternative purchase methods, see the real estate purchasing strategies manual.)

If we are unsuccessful in purchasing the property in pre-foreclosure, we do have another opportunity to purchase at auction, which in turn, is the foreclosure stage.

Foreclosure

The foreclosure stage is what used to be a lucrative way to purchase property under market value, but has now become saturated with investors willing to pay higher prices. Auctions are therefore a last resort for us to purchase a property. There are, however, some details that are important to know before considering purchasing at auction.

The first and most difficult hurdle is that all properties purchased at auction must be purchased in cash or with a cashiers check. The second rule to keep in mind is that all sales are final. This means that if you buy a property without fully researching it, and find that there are some costly fix ups, those cost become yours to bear because there are no refunds or returns. It should also be noted that any taxes that have not been paid are the purchaser's responsibility.

Benefits from purchasing at auction are, all liens prior to the foreclosure sale are completely eliminated at auction. As mentioned early, the typical foreclosure property will have multiple liens against the property, which are eliminated at auction. In addition, the opening bid amount will usually be below the market value. This means that if competition is fairly light, there will be a possibility of purchasing a property for below market value. Lastly, the auction process is quick and simple. There is no waiting for a close date or processing a loan. In fact, it is easier to get a loan when you already own the property.

Tracking foreclosure properties can be a time consuming process depending on how detailed and complete the tracker wants to be. For Stewardship Properties, we try to be as detailed and complete as possible because it significantly reduces the risk in buying foreclosure properties. It should still be noted that it is almost impossible to do a full inspection, so assume the worst when coming up with a bid amount.

Another issue facing auction property is where to begin tracking. Following the notice of defaults will provide you with the most accurate and complete list of auction times and dates. However, it is possible to track auctions by date and then working your way backwards to the notice of default. The following is a list of websites that track auction sales by date.

- www.NorthWestTrustee.com
- www.CalPost.com
- www.ctcres.com
- www.Rtrustee.com
- www.cwrc.com

Post-Foreclosure Bank-Owned

If a property does not sell at the auction stage of foreclosure, the property is then reposed by the bank doing the foreclosure. At this point, the property will either be listed on the multiple listings page through a realtor or will be bought by the government (HUD) and resold to “owner occupying” buyers (no investors).

Marketing towards foreclosure properties is valuable but also time consuming. It is valuable for Stewardship Properties because there a many opportunities to purchase a property through out the foreclosure process. It is time consuming in the sense that there are many stages and many properties to track in the process. However, with solid systems and processes in place foreclosures can be very profitable.