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ONAGA MODEL

Facing The Challenges Of Today's Real Estate Marketplace

Investor Shares Strategies For Profiting In Today's Market



Michael Mazzella
Real Estate Investor and Mentor
President, HonoluluMentor.com

Although modest growth is reported for some segments of the real estate market, many home owners are still struggling to make their mortgage payments, short sales are common, and the rate of foreclosures is high. This is a marketplace where savvy real estate investors are able to prosper, according to Michael Mazzella, a full time real estate investor and mentor based in Honolulu.

"Right now investors can take advantage of incredible buying opportunities. When things go on sale, a smart shopper goes out and buys...smart real estate investors do the same," Mazzella said.

"Unfortunately, a real estate bargain sometimes means that someone has lost or is about to lose a home. However, the deals I and my investor/partners and proteges do benefit an entire chain of people involved in the transaction...the real estate agents are making commissions on properties no one else is interested in, contractors and handymen are getting work making improvements to the properties, lenders are making their commissions, escrow companies are getting their fees. Everyone involved is able to feed

response, he says, is amazing. As many as a hundred people show up at the open houses, generally held on Saturday and Sunday, and register to bid. On Sunday evening, those who register to bid are called and a round-robin bidding process is conducted by phone. Within two to three hours, the highest bid is declared. At that point, contracts are signed and a normal escrow process ensues.

"The deals I'm focusing on now on Oahu are 'buy-fix-sell' properties, where I can get in and out in three to four months with at least a \$70,000 profit," Mazzella said. "There are more deals out there right now than I have ever seen. I don't just look at the foreclosures and short sales...I find landlords going through evictions, probate properties, vacant homes, ugly homes, et cetera. In my mentor course, I teach over forty ways to find deals. Many of these properties are not listed for sale in the MLS...this is what I call the 'hidden market,' and this is where we find some of our best deals.

"One deal I am working right now involves a house that recent comparables put at a solid \$450,000 and I am buying it for \$290,000. This doesn't mean I will make a \$160,000 profit. I have to back out my expenses, which include closing costs, holding costs, some cosmetic touch-ups, and landscaping. And when I put it back on the market, I will need to sell it below market in order for it to move quickly in this environment. However, there

Fifth in a Series

Foreclosure
Short Sales
RECESSION



off these deals which keeps the real estate industry moving and benefits the economy in general. In many cases, the homes we select for our deals, generally before they go to foreclosure, could become a blight on a neighborhood if left to deteriorate.

"However, you have to analyze the market carefully to jump in at a time like this. Our

is still room for a substantial profit.

"Usually, we want to get the properties we acquire back on the market as soon as possible. If I don't see the potential for at least a \$70,000 profit, I don't do the deal. I recognize that there are always going to be factors beyond our control, so I like to have large margins in my deals for safety. After doing this type of investing for seven years, I have yet to lose money on a deal. A lot of people who are holding properties in this market are losing money. Market values are declining and many investment properties do not have a positive cash flow because the expenses are frequently more than what the market rental rates will generate in income. Some investors will create what I call artificial cash flow by pumping extra money into the deal and paying down the mortgage...which in many cases does not make sense from an investing standpoint."

But what about financing the deals in today's tight mortgage market? Mazzella says he now is using a lot more cash than in the past. "For a typical \$400,000 purchase I may use \$200,000 in cash. Getting a small loan is much easier, so I may use the mortgage only to cover the difference. Many sellers are willing to accept a lower price when I use cash, so this also helps me to get better deals. Other creative financing strategies include finding sellers who are willing to self finance the transaction, and sometimes we will take

approach today, is quite different from what it was three years ago. In my mentor course, I discuss 'evolutionary theory applied to business.' Those who evolve and adapt their strategies to the changing market survive and prosper. We teach people cutting-edge strategies that are effective in today's marketplace and help them get into their own lucrative deals here in Hawaii as well as in some Mainland markets."

Mazzella accepts only four students at a time for a four day intensive mentor program, which is followed by thirty days of telephone or email coaching. They receive a course manual, handouts, forms, contracts, business plans, and software. The student group, led by Mazzella, writes offers on real properties and does extensive hands-on training. They take several field trips during the course to find deals, to interview mortgage brokers and real estate agents, and to see a rehab property in progress. Mazzella explains the process in detail...how he found the property, how the deal was financed, and how to conduct due diligence and estimate the net profit once the property has been rehabbed and placed back on the market. He emphasizes the importance of recognizing that this type of investing is really a science that requires a thorough analysis of the market and careful evaluation of the property.

When he wants to sell one of his properties, Mazzella often conducts "Five Day Sales," which are essentially auctions of "For Sale By Owner" properties. He places newspaper ads which describe the property and give a starting bid price, which is about half the actual value of the property. The

Continued on Page 4

the property subject to the existing financing.

"I teach my students creative ways of getting the cash...it doesn't have to be their own money. I explain about partnerships and how to use private money and hard money. Hard money comes from a lender who charges points and interest, and loan approval is based largely upon how good the deal is. These days, with the stock market down, there are lots of people ready to invest in something where they can make money, while having their loan secured.

"When I use money from private individuals, I can completely secure their loan using the property as collateral. We provide a note and mortgage drafted by an attorney and then the transaction goes through the normal escrow process, finally with recordation at the Bureau of Conveyances.

"There are a lot of ways to be creative and prosper as a real estate investor. Strategies that work well in one market may not be right for another, but the fact is that real estate has created more wealth than any other type of investment. Some of the nation's investment icons, such as Donald Trump, Warren Buffet, and Robert Kiyosaki, all agree that this is the time to buy. I personally believe that more wealth will be created in the next two years than has been generated in all of the last five years, but it will be accumulated by fewer people...those who understand creative investment strategies and how to apply them