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### **A Successful Purchase, Rehab, Refinance X 3**

In March of 2008 I purchased the first of three “4-plexes” on Wooten Park Dr to compliment my existing apartments (20 units) on the same street.

This is a story written to entertain and educate but in no way am I giving legal, financial, or real estate advice. For advice, please consult your appropriate professional counselor/advisor.

Please also note that real estate investing is a contact sport and it should only be undertaken after consultation with your physician, attorney, Pastor, Priest, Rabbi, Realtor, spouse, friends, enemies, and/or other concerned parties.

If you would like to learn more about being a professional real estate investor, please call me or send me an email. We can talk about what type of investor you are and what types of things you should be doing in order to go where you want to go. The phone call is free and you are under no obligation to develop any type of professional relationship with me. I like to talk shop and welcome the chance to help a fellow investor reach their goals and dreams!

I would love to sit down and have you buy me lunch!☺

You can check out my profession profile on linkedin at [www.linkedin.com/in/ronseay](http://www.linkedin.com/in/ronseay). If you are a member of linkedin please send me an invite as I accept all invitations.

If you have some buildings to sell, please contact me. But please note that I am a professional investor. I normally do not flip properties but rather add them to my investment portfolio. This is the primary means in which I use to provide for my family, which means if your property is not a great deal then I will probably make an offer at the price that makes it a great deal. Please don't take offense as low offers are not meant to insult but rather to produce a transaction at a price that fits my personal investment criteria.



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### The First Building

This building was ½ occupied and needed some serious repairs to get the other two units up and running. The list price was \$210,000 and was I able to successfully purchase the building for \$162,500 in part due to the repairs, current tenants and overall motivation of the owner. The owner had it listed on loopnet but did not put it in the local MLS with a realtor.

Here is what the outside looked like when we bought it.



I did not do anything special to get a reduction in price. I just talked to owner about what condition his building was in and what he thought it was going to take to fix the building. I then told him what I could pay and how fast I could close. He did the rest!

He understood what shape the building was in!

He knew he could sell it and take his money and do something else with it!

Once he knew that I owned buildings on the same street and that I was serious he understood that I intended to move forward and move forward fast so we went under contract and closed on the building within a month, using my lines of credit to fund the purchase. CASH!

I have used this strategy many times in the past so I knew what to do and how to do it.



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The first thing that I did was to move my office into the building so that I could get my arms around the status of the building and what it really needed.

One of the major issues was the hot water heaters and air conditioners.

The building experienced several air conditioner problems that lead the previous owner to rip out the ceiling in one of the units to find out what was causing a water leak in the building.

Additionally there was a rat problem, but most significant was the hot water heater problem.

The previous owner was paying for the electricity in one of the units because it was the only unit that provided hot water to the building. These buildings are set up so that each of the electric hot water heaters feed into a main system for the hot water.

So even though the unit was empty the owner was keeping the electricity turned on so that the current tenants would have hot water.



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Here is a picture of one of the bathrooms that needed some work:



This was man made and done on purpose.

I think someone was trying to find a leak but they just never found it and never fixed what they had broken either.

How would you like to have that type of contractor working on your team?

Rip my ceiling out and don't fix it why don't you!

This was done to try to find a leak in the kitchen I think!

Nevertheless, do you think that you could rent it this way?





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This is the same unit but different area in the kitchen.  
All of these things were minor repairs and did not take a lot of effort or money to fix.  
They sure look like a lot of stuff to the untrained eye.!



Do you think that any buyer is going to want to purchase this for full market value?



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Why would you even rip up the wall in this fashion and not repair the area?



Here is some of the things that tenants leave you when they do what is called a “midnight move-out!” Junk



As you can see he had lots of problems with the buildings and its management!



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This unit was occupied and paying!

They had a running water leak that no one bothered to tell the old landlord because “hey, who cares we are not paying the water bill!”

Of course it was fixed first and then I fixed the tenants!



Here is a picture of the big back yards that some of the units have.



How many apartments have a huge fenced back yard in your area?



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## The Numbers

The original financial picture of this property looked like this:

Purchase Price	\$162,500
Current Rents	\$450 + \$550= \$1,000

The unit mix contains 2 units that are 1 bedroom / 1.5 bathrooms, and 2 units that are 2 bedrooms / 1.5 bathrooms.

2008 Property Tax Appraisal Value was \$208,494.

## Budget for Repairs Needed:

Hot water heaters	\$8,000
Locks	\$200
Painting	\$1,000
Ceiling fans	\$200
Appliances	\$1,000
Sheetrock repairs	\$1,000
Misc	+\$600
Total	\$12,000

## Actual Repairs

Locks	\$400
Painting	\$800
Ceiling fans	\$500
Appliances	\$1,600
Sheetrock repairs	\$800
Flooring	\$3,000
Fencing	\$1,000
A/C Repairs	\$200
Hot water/ Plumbing	\$1,200
Misc	+\$1,556
Total	\$11,656

As you can see what we budgeted for and what actually happened are two distinctly different things!

Most investors lose heart when that happens.

In this case it happened but in our favor!



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## The First Refinance

After this was repaired which took a very short amount of time it was rented for \$450+\$550+\$650+\$750 = \$2,400. This property was purchased with our lines of credit. Those individual lines vary in rate and terms but the averages were about 10% interest with payments of about \$3,450. I first called my local banker, who worked with me on the original purchase of the apartments across the street, and inquired about him refinancing the property on a short term basis (12 months) for interest only. I had done this when I purchased my apartments and was able to refinance and pay him off with good success before my balloon payment due date. I paid him on time and kept money in the bank. I felt very confident that he would be able to get me a loan for 80% of the value of this property at some great terms. His reply was “Ron, we like Austin and your property but we are cutting back on what we can do, so we need to only do a deal with you at 50% LTV (loan to value). I felt that this was way too conservative and left too much of my money (my lines of credit) in the deal. I want to get paid (in equity) for using my brain to find, fix properties, and finance properties!

So, next I went to our friendly credit union. I wanted to have this loan amortize very quickly so we only requested a 15 year amortization. We always want to get all of our cash out especially when we use our lines of credit to purchase a property. However we ended up only getting out \$162,500. This was not a problem as we began to collect rents and the turn around time from when we purchased the building (03/25/08) and completed the refinance (6/30/08) was only 3 months! The final financial picture looked like this:

Money into the property:

Purchase	\$162,500
Repairs	<u>+\$11,656</u>
Total	\$174,156

Refinance	\$162,500
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The cash left in the building was \$11,656. This does not include the rents that I got while I waited for the refinance to be completed.

We had just refinanced our personal home with this credit union so I knew that they had money and could lend. The terms that they were offering me were 6.50% and 1.5% in origination points with no balloons and a fixed loan! I knew that the buildings would appraise for at least \$200,000 and should get to \$210,000. The appraisal came back at \$214,500, which would allow me to go into the next property!



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## The Next Property: The Burned-Out Building!



This property was foreclosed upon while I was out of town on vacation and the new owner put a for sale sign up (which you can't see in this picture) and I saw the sign and came along and took down the information and called him. ("took down the information" means wrote it down. Do not remove other people's for sale signs! ☺)

He wanted something like \$160,000 for it but I offered him \$130,000 and we talked a little and settled upon \$149,000 CASH with him buying a title policy and survey.

This property was vacant and fenced all the way around to keep people out. It was empty for over 2 years while the previous owner tried to repair it from outside of the state.

((((((A side note about perseverance. In 2005 I tried to buy this building. The owner at that time and I were trying to complete an exchange for her building for one of my houses that had a lot of equity. She ultimately sold it to a guy who had tenants who set fire to the building and ultimately cost him his ownership position and I am sure a few dings to his credit.))))))

The foreclosed owner listed it for \$210,000 thinking that it had been repaired but was not able to sell it.

I offered him \$120,000 for it but was turned down because he thought it was finished and ready to be occupied!



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I met his local realtor who took a listing that he had not personally seen, and we proceeded to walk thru the property. He took some pictures to send the out of state owner that would properly inform him of the current condition.

After he got the pictures he dropped the price to \$185,000 but ultimately he was not successful and finally the bank which had given him a loan foreclosed on the building.

The guy I bought it from paid \$139,000 on the court house steps for the property at the foreclosure sale and wanted to make \$10,000 (according to him). At closing he got back his \$139,000 but not much after that due to closing costs and property taxes.

Unfortunately we were not able to close on the first refinance before I had to close on the next purchase! So while I was waiting on our lender I had to make another draw on my lines of credit to purchase the this property.

I said that so cool but really.....

I was sweating bullets because I wanted to close on the this property as soon as possible.

So on 6/15/08 we closed on the purchase of the this property but I really wanted to only draw so much out on the lines of credit. Then on 6/30/08 I refinanced the first property and paid down the lines of credit with the proceeds. What happened next was so extraordinary that I could not have planned it this way!

Another property came on the market 2 doors down the street.

So what did I have to do? I of course made the first and only offer on the property at the list price of \$174,900 CASH!

I will explain the workings of the next building on the following pages but for now I will focus on this building (#2) for now.

The Burned-Out Building:





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## The Repairs:

This building was a wreck, that is why it was priced the way it was! It needed extensive repairs. A list of repairs included: electrical, plumbing, HVAC, flooring, appliances, roof, fence, painting, doors, windows, sinks, faucets, etc, etc.

The total budget for this building started at \$35,000 and went as high as \$45,000. We ultimately spent almost \$49,000.

This amount got the building up and running and it still needs about \$5,000 to make it finished and beautiful.

Right now it is just 95% of the way there.

This project required a crew of about 5-6 laborers plus outside contractors to help on the complex jobs. Due to the size and scope of the repairs I even had to get involved physically in order to get this building up and running.

My plan was to get 3 of the units up and rented. I then finish off the last unit, which was the worst one so that I could move my office into that unit.

In short order I got the three up and going and then the next thing was to keep them that way until I could do the refinance of the buildings.

Even though I purchased this one before building #3 I pushed to get #3 finished while this one just sat and waited a while, building #3 was easier to get repaired and refinanced.

The first thing for this buildings was to cut down the overgrown trees and make some cosmetic repairs to the outside.

Then I began the plumbing repairs. It turned out that one of the neighbors lived in the building before the fire and was able to share some valuable information about the plumbing leaks. We had to open up the walls to replace a 3-inch drain pipe, all of the cut off valves, and some of the copper that was stolen from the building.

One unit was gutted down to the studs because of the fire, the electrical wiring for the entire building was updated, the roof needed repairs, insulation was missing, doors were missing, windows were replaced, flooring was updated and then finally we were ready for the electrical inspection.

The electrician was terrible and it took like 3 months for our contractor to get his act together and finish my project. Finally I got power on in the building.

I purchased this building on 6/15/08 but was not able to begin to get rent from it until November of 2008 almost 5 months of no income and huge expenses!



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By December it was fully rented and paying which was a miracle.

At the same time as we were working on this building we were working on the #3 building, thankfully it needed much less in way of repairs done to it.

The #3 building was purchased 7/29/08 and by September we had it full and finished.

So for the first couple of months I focused on the #3 building instead of on the #2 building. My strategy was simple: Fix the easiest building first. Then get it rented so that it would help financially fix the other building.

Here are some pictures of what the burned up building looked like:



Bulk tree day was coming and you can barely see all of the limbs stacked up on the side of the property but when they were pulled to the curb they filled the parking area and were stacked about 6 feet tall, 6 feet deep, and 75 feet wide! Bulk Tree Day is when the city picks up your bulk tree cuttings for free!

I also used that time to get some other threes cut down and stacked up in the same area as well.



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Here is a better picture of all the limbs. Some of them came from my other properties on the street. One of the advantages to owning more than one property on the street is that it allows me to get some economies of scale.



The plumbing (stolen copper) inside one of the unit stripped down to the studs!



I had to re-plumb two of the units because the copper was stolen. Some of cast iron drain lines were cracked right down the middle and had to be replaced with PVC.



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Most of the electrical rewiring had been done by the previous owner but he never quite finished!



For some strange reason he felt that this should be enough to get the building back up and running! I wonder how it feels to have your contractor tell you, “Oh yea its finished;” and then to get a picture like this!

As I mentioned earlier this building was being worked on when the third building came together and so it was put on hold while I got the third building together.

At this time I was just about stretched to the max on the buildings and my lines of credit.

#### The Numbers

Purchase	\$149,000
Repairs	+\$45,760 and counting
Total	\$194,760

The unit mix contains 2 units that are 1 bedroom / 1.5 bathrooms, and 2 units that are 2 bedrooms / 1.5 bathrooms.

2008 Property Tax Appraisal Value was \$208,494.



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## The Third Building



This building was in decent shape compared to the other two buildings. It also costs the most of the three buildings at \$174,900.

I tried to buy this building from the previous owner before he lost in to foreclosure. He had it listed for \$215,000 with a local agent and I purposed taking over his loan. He was open to it but he owed over \$200,000 with a first and a second loan. After I tried to make the numbers work I simply could not. His rents were low and the payments were high so I simply had to pass on the purchase at that time.

((((Remember the previous note about perseverance. Here is another example of how if you persevere you can accomplish what you desire for less money and less headache!))))

I am glad I did pass on the initial opportunity now, at the time I was upset that I could not add to my portfolio in a way that was easy to complete. I had a similar experience in the past and later regretted not adding to my portfolio when the opportunity was presented to me.

This felt like I was doing the same thing all over again.

The first time that I hesitated it cost me about \$50,000 in lost profits.

Have you ever had the opportunity to buy the duplex right next door to yours and pass on it?



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I did and I later sold that original duplex for over \$50,000 more than the proposed purchase price of the one next door!

However, that was then and this is now and because I hesitated in this situation I was able to later come back and purchase this property for about \$41,000 cheaper!

This building needed mostly cosmetic repairs: flooring, paint, appliances, doors, and windows. This building went the fastest of the three to repair and get rented.

I made a couple of mistakes on the tenants in my haste to get it rented but after a few bad tenants I got it together and was able to better evaluate the tenants.

What made me take the bad tenants?

Well I needed to get my cash flow up because I had 8 to 10 empty units and big payments. So to put a warm body in the building I would take anyone who wanted to live in the building so that I could get some cash coming in to offset the repairs and expenses.

Financial Pain has a way of talking to you and sometimes I listen!

Even when I know better!

I knew some of those initial tenants were shaky!

I knew that they would probably have problems!

Nevertheless, I put some warm bodies into buildings so that I could get some type of income coming in to help offset the pain of carrying the buildings until I could put the long term financing in place.

What will your place look like when you put the wrong people into it?

Well you know but just in case here are a few reminders.



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Yes, the picture is blurry but your imagination can give you a taste of what my eyes saw and what my nose smelt!



Yes, they did leave that 72 inch plasma! No, I had not died and gone to landlord heaven, rent-a-center called and wanted their TV!

No, you can't say you don't know what happened to it! ☺



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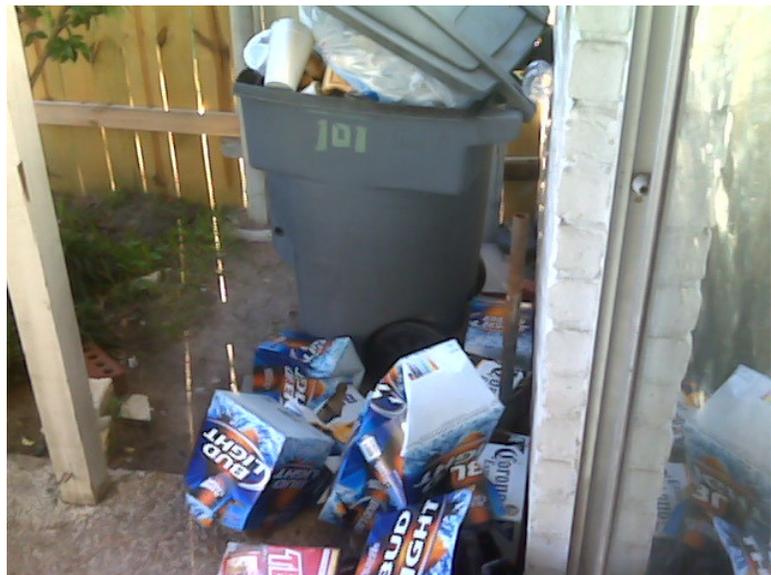
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Want a weight bench that is missing the bench? I had one of those!



Some resident's idea of recycling!



Most of these types of things are a minor headache and can be cleaned up in 1 day or less by a 1 person crew! Two people can knock out a clean and sweep in ½ a day with enough trash bags and a little hard work!



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Now on to the beautiful pictures.



This building shows great inside and out. I moved the fences to give the residents some type of backyard not just a fenced patio!

Here are some of the pictures of the finished Bathroom:





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Small back yard in one of the units. Not quite as big as the other back yards, but still enough room for a small pet. The washer/dryer connections are in the utility room.



Fresh carpet and paint works wonders



I staged this unit so that people could see what it could look like with their stuff in it. Everyone who looked at it liked it but some people who did not get out of their cars never saw the inside. All of the furniture was given to me by former tenants who either were forced to leave or who left on a midnight move-out!



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New tile and appliances for the downstairs



The Bedroom/Loft



The numbers on this property look like this:

Purchase	\$174,900
Repairs	<u>+\$11,100</u>
Total cost	\$186,000

The unit mix contains 2 units that are 1 bedroom / 1.5 bathrooms, and 2 units that are 2 bedrooms / 1.5 bathrooms.

2008 Property Tax Appraisal Value was \$208,494.



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### THE MONEY HUNT

By the time I got ready to refinance these properties the full financial/credit crunch was in effect and the credit union that I did the first loan with had a very low tolerance for me.

Consequently they offered me a loan with only a 50% loan to property value.

I quickly refused that loan as I felt that I should get more out of the property especially since 3 months ago I just got a loan at a 75% loan to value.

That began my hunt for money!

So I had 2 free and clear buildings and owe close to \$474,000 on my lines of credit.

Do you know what paying over \$8,000 per month feels like?

Well let me tell you it is no fun place to visit!

The \$474,000 included the purchase of these two buildings plus some of the cash I had to leave in the first building and all of the repairs, plus some interest costs for carrying the buildings for 9 months while they were empty, plus property taxes.

I talked to over 30 different banks, credit unions, hard-money lenders, and mortgage brokers.

It took me another 6 months after being offered the 50% loan to value deal from my first credit union to finally find someone who was lending money at reasonable rates.

The first lender that I talked to was all ready to establish a new business relationship with me. He was an investor himself. He had other customers who were investors. He understood my business model (buy and fix with lines of credit and refinance as soon as possible with long term financing). He even wanted to try and establish a big business line of credit that would be secured by some of my other property and that I could use to go out and continue to grow my portfolio. It all sounded too good to be true!

And of course just like they say, "If it sounds too good to be true, it probably is!"

Well it started with a little push out on the time line. Then there were more little delays for what is a simple transaction for a small amount of money!

I had similar things happen to me in this transaction before. I was all ready to do a loan on the third building as it was ready to go and occupied and a lender just kept delaying and asking questions and not returning my phone calls.



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All the while I am telling him how urgent this transaction is to me.

After all, I am the one who is paying the \$8,000 per month to service the debt on my lines of credit. I needed to get some payment relief before the weight of the payments crippled me!

Finally I just said, “OK I have called this Guy enough and if he breaks his word to me one more time I will never call him again!” Sure enough he never called and neither did I.

In February 2009, I found a bank that said they were interested in doing loans but after 2 months of asking questions they came back with an offer to loan only 70% of the cost of the buildings, not giving me any value for creating equity in buying assets that were broken and fixing them.

In a normal time I would have told him to jump in a lake offering 70% of cost at 7% when the market is closer to 5%!

But considering the world was falling apart at the time I was willing to take just about anything if he could have done it fast. February to April is not fast in case you were wondering! By April I was beginning to think that this guy can’t perform and he is just stringing me along.

After being in the business for a while and getting strung along you get a nose for that sort of stuff.

Unfortunately, for this new banker he was not really able to get it done.

Around the 1<sup>st</sup> of March he said, “I will get you a commitment letter,” but that just turned into more questions so I kept looking for another lender just in case he could not perform.

Sure enough when he went to present my loan at the loan committee they told him, “that they don’t like cash out refinances!”

I am thinking to myself, “you should have known whether or not the bank likes cash out refinances before you sat down to talk to me!”

My loans were not a term and rate refinance and no one within reason would make them out to be.

They were cash-out refinances. Even if I use all the money from my line of credit and agree to allow my lines of credit to be paid off at closing it is still a cash-out refinance.

So question that the loan committee asks him and he then asks me, “How do we know that the lines were used to purchase and repair the buildings so that we can make this into a term and rate loan (for the regulators or the big bosses).”



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When I hear this request I am think to myself, “these guys must be crazy!” How in the world do you expect to me to document the flow of well over \$400,000 in small chunks?

No lender in their right mind asks for that type of detail on the repairs!

At the same time as I was working with this bank I was also working with another credit union. The new credit union came back with these loan parameters:

1. 80% loan to cost (\$200,000 X 80% = \$160,000 max)
2. 70% loan to value (\$240,000 X 70% = \$168,000 max)
3. 1.5% origination points

Well these numbers were coming in higher than what the bank was thinking about (\$200,000 X 70%= \$140,000). So since I had two buildings I would have been talking about \$280,000 (\$140,000 X 2) with the bank or \$320,000 (\$160,000 X 2) with the new credit union.

So as you can see I was beginning to feel less and less impressed with the bank only offering the 70% loan to value, but I still did not just cut him off as I wanted to make sure that I did not shoot myself in the foot and then not have the new credit union close the deal.

Next the credit union also came back with a request to show all of my leases.

Not just the leases for the two buildings but all of my leases and show them where all the money went on my lines of credit.

My reply was, “you do understand that you are asking for over 200 pages of information.”

The receipts alone probably total well over 150 pages with 3 receipts per page.

Their reply was, “Yep! We understand!”

So I talked it over with my wife and she said, “if they will give you the money just do the work to prepare the information.” Well after an exhausting weekend at the copy machine I produced the folder with all of the receipts, and invoices to document my cost and took it over the credit union.

Within 1 day I got a firm commitment letter!

Now I am thinking to myself there is no way that they read even ½ of the information in that binder.

They just needed to say that they went above and beyond what was necessary to cover themselves! Within a week we closed the new loans!



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### The Final Results

The appraiser came out and walked the buildings and came back with a value of \$219,500 for each building. I felt that that number was a little low, I was pushing for \$240,000 each but the comparable sales figures ultimately did not support my higher valuation.

Using the credit unions loan parameters of the lower of 70% of value or 80% of cost I was able to close on two loans for \$153,225 each or \$306,450 with a 20 year amortization period and a 10 year balloon at 7.00% fixed interest rate. The payment is \$1,093 each or \$2,186. I was paying over \$6,000 per month for that same money before the refinance.

So now I own 32 units on the same block with 4 different loans (20 originally owned and three 4-plexes mentioned above).

I still have a big amount left on my lines of credit, but the 3 properties make the payments on the left over amounts.

Cost #1 building	\$174,156	Value	\$219,500
Cost #2 building	\$194,760	Value	\$219,500
Cost #3 building	<u>+\$186,000</u>	Value	<u>+\$219,500</u>
Total Cost	\$554,916	Total	\$658,500

Total equity using the low appraised value of \$219,500 each is \$103,584. If we used my \$240,000 value then my new equity would \$165,084!

The buildings rent for \$2,750 + \$2,700 + \$2,585 (I will be increasing this to \$2,700 soon) = \$8,035.

The payments are \$1,417 + \$1,093 + \$1,093 = \$3,603 (not including insurance and taxes)

The purchase of the three buildings has also given me more control on the street. I was stuck at \$725 –\$750 max on my rents in my original buildings and by adding the additional units I was able to clean up the street a little more.

That control has opened the door for the rents to go up to the \$800 range. While this is a small amount; the increase in rents of at least \$50 per unit results in big increases in my property value across the 20 originally owned. As those 20 become stronger the other 12 in these buildings become stronger (i.e. more valuable)

Additionally, with more units owned on the same street I was able to cut down on some of my management expenses and time spent driving around all over Austin to manage property.



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With the refinance completed I was able to do a few things. The first of which was that I able to give my wife a raise in her monthly budget after a full year of putting up with my crankiness from the stress of pulling off this transaction!

My children got season passes to the Schlitterbahn amusement park for their prayers for our good success in the real estate business!

My church received a big donation as a direct result of the financial weight being lifted off my shoulders as a show of my gratitude for God's Grace being shown to me!

I set a goal for myself on New Years Day that if I was able to complete the refinance on these two buildings that I would by myself a new car!

Here is a picture of the steering wheel of my old car a 89 Mercedes 560 SEC coup V8.

The best in its class!

Timeless! Bar none!

The new top of the line coup's from Mercedes are well over \$100,000!

While I have had good success with these properties; I don't quite think it warrants a trip to the Mercedes Benz dealership!



Maybe a used Honda, or VW, after all you can't spend equity until you cash-out! Additionally, premium gas is sky high so I am in the mood for a gas sipper not a gas-guzzler!

After closing on the refinance I had my eyes opened a little wider. I met a lender who thinks that he may be able to put one loan on all of the buildings. This would be a non-recourse loan! That really got me all excited!

To make it fun I would want the following things from a new loan:

1. Loan big enough to refinance the existing debt on all the units,
2. Loan big enough to refinance the leftover amount on my lines of credit,
3. Loan big enough to allow me to payoff my own personal house, and
4. Loan big enough to get some equity out (\$200,000) to go into another investment.



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Now that would be an exciting loan and the value to support a loan of that size is in the property!!!

I will see what happens on this next level of financing. With the financial markets in such a rough shape I am not sure that it is even possible. I had the hardest time just finding 2 willing lenders and then one of them was really not willing at all!

## Speaking of cashing-out;

## Anyone want to buy 32 Condo's?!?!?

The End  
or  
the next beginning  
only God knows.

I hope that this true story inspired you to take a risk when no one else is doing so. I hope that you will learn from my mistakes. I hope that you will share your experiences with someone else to inspire them.

If you need a mentor to help you jumpstart your investing give me a call 512-689-6742.

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