



Title

Top 10 Hidden Costs When Buying Real Estate (Using a Real Closing Document)



1. Hook

In this video, I'm going to share a list of the top 10 hidden costs of buying real estate, specifically when it comes to buying an investment property.

I'll be using a duplex I bought back on June 25th, 2021 as the primary example.

The purchase price for that property was \$485,000.

Stick around until the end of the video to find out how much this property actually cost me to buy and hold to this very day.

I think you'll be surprised!



2. Intro

Hey friends, welcome back to the channel.

If you're new here my name is Sunny and I'm a real estate investor based in Northeast NJ.

On this channel, I share my investing experience in an effort to help you start or grow your real estate portfolio.

Today I want to share my Top 10 "hidden" costs behind buying an investment property. Don't forget to include these costs when you analyze your next deal.

Alright, let's jump right in.



3. Value

Slide 1: Due Diligence - Prior to Closing

The first category of hidden costs comes before you actually buy the property. This period is commonly referred to as the due diligence phase.

Subheading: #1: Attorney's Fees - \$1,500

After the seller accepts our offer, we send the signed contract to our respective attorneys to iron out the details. The attorney I used on this transaction charged me \$1,500.

Technically, you don't *need* an attorney to complete a real estate transaction in NJ, but I prefer to use one anyway.

The reason is simple: good real estate attorneys do hundreds of transactions per year. I'll be lucky if I get to do that many in my lifetime. Their vast experience and robust systems are what make their fee completely worth it.

On this transaction, in particular, a few days before closing, our attorney found out there were 2 open permits on the property. One was for work done on the roof and the other was for an oil tank that was pulled a few years ago. If we bought the property with those open permits, it would have been really difficult to get the seller to close them out after they've already been paid. Instead, we pushed the purchase date and waited for both permits to be closed before moving forward with the deal.

Subheading: #2: Tank Sweep - \$600

Speaking of oil tanks, one of the first things we do once we're out of attorney review is schedule an underground tank sweep. Sometimes a seller will tell you they removed the oil tank, but unless they provide bullet-proof documentation, you should probably do the sweep anyway .

Most homes built before 1980 likely had oil heat at one time. Oil tank are made of metal. Metal rusts over time. That rust causes holes. If the tank wasn't decommissioned properly, oil can leak into the soil and it can costs thousands if not tens of thousands of dollars to cleanup. You don't want to buy a home that has an oil tank liability.

Our tank sweep guy charges us \$250 per visit. He basically walks around with a metal detector trying to figure out if there's an underground oil tank on the property.

Unfortunately for us, his findings were inconclusive on this duplex. He cut his fee down to \$100 and suggested we get a GPR scan done. GPR stands for Ground Penetrating Radar. It's a non-invasive way to get a clear picture of what's under the surface.

The GPR scan cost us \$500. It was quite an expensive line item, but there was good reason to do it. There were many signs of an Underground Oil Tank at the property such as copper supply lines in the basement floor and a vent pipe on the exterior of the building.

Subheading: #3: Property Inspection - \$763

Let's move on to the property inspection.

A lot of investors I know conduct their own inspections. They walk through the property with a clipboard or simply take a mental note of all of the issues. I'm not that smart or that experienced.

As long as time allows for it, I try to get a proper retail inspection done. On my very first investment property, the inspection report saved me \$50,000 on the purchase prices so I've basically paid for the next 60 inspections in one shot.

Inspection rates change based on the size and type of property, but for a duplex in Morris County, NJ, I paid \$763.

Subheading: #4: Professional Services - \$250 per hour (\$750 total)

If your inspection reveals significant issues, you might want to hire a specialist to visit the property.

For example, I'm about to buy a duplex that has structural issues in the basement.

I had an architect and structural engineer visit the property and I offered to pay them \$250 each for an hour of their time.

Together, they drew up their concerns and came up with a plan for remediation.

I forwarded their plan to a general contractor and asked him to bid the work.

The contractor turned around a bid for \$35,524.95

I sent the inspection report, letter from the structural engineer, as well as the bid from the contractor to the seller and they gave me a credit for \$25,000 to keep the deal alive.

That's a 33x return on investment.

There's a saying I really like. It goes, "If you think hiring a professional is expensive, try hiring an amateur." That goes twice when it comes to real estate. Surrounding yourself with the best vendors and they'll pay for themselves a few times over.

Subheading: #5: LLC Formation - \$128.50

The final cost you'll incur before actually buying the property is the LLC formation documents. If you do it yourself, it'll cost you \$128.50 in NJ. If you hire it out, it'll probably cost you \$250.

If you've never created an LLC before, do yourself a favor and just outsource it to a service like LegalZoom. They'll get it done right in a matter of minutes, which is much better than taking multiple tries to get it done wrong in a matter of hours or even days.

CTA - SUBSCRIBE TO THE CHANNEL

If you're getting value from this video, don't forget to hit the subscribe button and ring the notification bell. I put out a new video every single week and I don't want you to miss the next one! Alright, back to the content.

Slide 2: Closing Table

The second major category of hidden costs comes when you're at the closing table.

Subheading #6: Lender's Fees - \$6,652.88

Our total purchase money loan amount on this property was \$378,700.

The majority of that was a 75% LTV on the purchase price, which came out to \$363,700.

The remaining \$15,000 was in the form of a construction loan.

Between origination, service fees, and upfront interest, we paid our hard money lender \$6,652.88 on the day of closing.

We typically use a mix of hard and private money to purchase investment property.

Our private money lender funded our down payment and working capital, but didn't require any points. We are simply paying them the same interest rate we're paying to our hard money lender. More on that a little later in the video.

Subheading: #7: Title Charges - \$3,644.92

Title fees are often the most expensive part of a transaction if you're not using a hard money lender to fund your purchase.

The title company is a third party vendor that works on behalf of both the lender and the buyer. You hire them to research and ensure the title of the home you're buying.

Title companies will research what is called the "chain of title," or the full history of the home's ownership. Your title company will also conduct a property survey to ensure that the home occupies only the space indicated on the title.

Title companies provide two kinds of insurance policies: one for you and one for your lender. This insurance will protect you and your lender if someone comes forth with a claim for the property that was missed in the title search during your purchase.

Unlike most insurance policies that require you to pay a yearly or monthly premium to keep your coverage, you only have to pay title insurance once when you close on the property. You're then covered for as long as you own the home.

Finally, title companies manage the closing on your home in a process that's usually referred to as "settlement." This is the money part. First they collect the funds necessary to purchase the property from the buyer and lender. Then they use that money to fund the balancing of accounts from property taxes and utilities to paying off realtors and any other liens that might be on the property. Whatever is left over gets sent to the seller.

The reason I'm going so in-depth on Title companies is because the same principal applies: "if you think hiring a professional is expensive, try hiring an amateur."

Title can be expensive, but please never ever try to buy a property without using a title company.

With all that said, I spent \$3,644.92 on Title for this transaction. The bulk of that was the Title Insurance at \$2,161. The rest of it was mostly recording and settlement fees.

Slide 3: Post-Closing Carrying Costs

The third major category of hidden costs comes after closing, once you own the property. These costs are often referred to as holding costs or carrying costs as they are recurring in nature.

Subheading #8: Loan Interest - \$38,340 per year

Our largest ongoing cost on this property is our loan interest.

We used 100% debt financing to purchase this property.

Our hard money lender funded our purchase money loan to the tune of \$363,700.

Our private money lender funded our down payment and working capital to the tune of \$147,500.

They both charge us 7.5% interest-only.

7.5% on \$511,200 is \$38,340 per year or \$3,200 per month.

Subheading: #9: Property Taxes - \$8,104 per year

Our second largest ongoing expense is property taxes at \$8,104 per year, or \$675 per month.

Subheading #10: Property Insurance - \$1,690 per year

Finally, our third largest ongoing expense is property insurance at \$1,690 per year, or \$140 per month.

We paid one year of our insurance premium up front at the closing table, but if we sell the property within the year, we'll get reimbursed the difference.

Subheading: Adding It All Up

Before I end this video let's take a minute to recap all of the hidden costs on the duplex I purchased in Morris County, NJ for \$485,000.

So in Category 1, which was pre-closing, we had the following expenses.

- Attorney's Fees - \$1,500
- Tank Sweep - \$600
- Property Inspection - \$763
- Professional Services - \$250 per hour (\$750 total)
- LLC Formation - \$128.50

All of that comes out to \$3,741.50

In Category 2, which is at the closing table, we had the following expenses.

- Lender's Fees - \$6,652.88
- Title Charges - \$3,644.92

Those two items come out to \$10,297.80

So far, before I even technically OWN the property, I've added \$14,039.30 to my purchase price of \$485,000.

My all in number here on day one is \$499,039.30.

In Category 3, which is post-closing, we have the following on-going expenses.

- Loan Interest - \$38,340 per year
- Property Taxes - \$8,104 per year
- Property Insurance - \$1,690 per year

Those three expenses add up to 48,134 per year or \$132 per day.

We closed on this property on June 25th, 2021 and today is October 31st, 2021.

We've held this property for 128 days so far so our recurring expenses have cost us \$16,896, bringing our grand total all-in number to \$515,935.30.

Thankfully, we have this property under contract to sell right now for \$565,000.

Once we actually sell this property, I will likely make another video outlining the cost of the sale and our profit on the deal.

4. End Screen Sales Pitch

I hope you enjoyed watching this video as much as I enjoyed making it for you.

If you want to watch more videos like this from me, please check out the video down below.

Finally, I put out a new video like this every single week so if you haven't already, please be sure to subscribe to the channel.

I don't want you to miss the next one.

Alright, Peace!