Flip Houses:

Learn to Wholesale a House as a Real Estate Investor

William Johnson

DISCLAIMERS

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal or other expert assistance is required, the services of a competent professional person should be sought. Your results will vary from those of the author and/or other students mentioned in this course. The author and the publisher do not guarantee that anyone following these ideas, strategies, suggestions, techniques, or tips will become successful.

Further, this is not a sale, nor an offer to sell securities, which are regulated by state and federal laws and regulations. Any sale of securities must be conducted by registration or under an exemption from registration.

William Johnson, REIClub.com and its officers, agents, and assigns specifically disclaim any liability, loss, or risk, personal or otherwise, incurred as a consequence, directly or indirectly, of the use and application of any of the techniques or contents of this course manual.

YOUR NEED FOR LEGAL AND TAX ADVICE

While the information contained in this material was prepared with best efforts and in good faith, the publisher and author make no representations or warranties with respect to the accuracy or completeness of the contents herein.

The publisher and author specifically disclaim any implied warranties of merchantability or fitness for any particular purpose. This material and all associated documents and examples **should not** be used as a substitute for your legal advice on matters related to business, taxation, estate planning, or other business and financial-management matters.

Each individual’s circumstances are different. Consult with your legal and tax advisers before making any decision to borrow, raise, solicit, or lend money through privately placed mortgages.

If your legal and tax advisors are not familiar with private mortgage lending, you may need to find additional legal and professional advisors who are familiar with and experienced in private mortgage lending.

Table of Contents

Introduction

Investor Objectives

Building Your Team

Finding Wholesale Buyers

Finding Motivated Sellers

Deal Analysis

Negotiating With Sellers and Buyers

Making Offers

Contract Clauses

Marketing Your Deals

Closings

Conclusion

PREFACE

First, I want to thank you for your interest in this book. I am certain that if you read this book you will find at least a few nuggets for you to take with you as you begin to wholesale houses.

This book is your quick-start guide to building a business centered around flipping houses on a wholesale basis. You will learn the basics of creating business relationships, finding motivated sellers, building your list of cash buyers, analyzing the deals, negotiating for the best profits, and closing the transactions smoothly.

With this book, my goal is to give you enough information to show you that there is money to be made. There are properties out there waiting to be discovered and repurposed. There are people out there waiting for something to happen with a property they don't want. Learn the concepts I'm giving you and put these ideas into action.

Remember, I'm only focusing on the basics in this book. I want to give you a summary of what you need to succeed in this business, but it would take a lot more information to truly give you the complete picture of everything you could possibly run into when wholesaling houses.

As my way of saying "thank you" for taking the time to read this ebook, I'd like to offer you the opportunity to download a free copy of the Fast Cash Wholesaling Houses Fast Start audio CD available at…

www.FastCashCD.com

(Just input your email and the passcode "FHLWH" to receive the digital download.)

Introduction

Welcome to a thorough overview of wholesaling houses for real estate investors. My goal is to provide you with a summary of the steps it will take to complete a wholesale transaction from start to finish.

Let's kick things off by defining what wholesaling is. Wholesaling a house is nothing more than finding a great deal and then passing this deal on to a buyer while you make a profit in the middle. Wholesaling is all about generating leads, making offers, negotiating terms and price, and ultimately having your buyer fund the deal. You, as the investor, do not worry about what happens after the deal.

Now let's talk about the methodologies behind wholesaling. I'm going to teach you how to find and generate motivated seller leads through online marketing, real estate agents, other investors, banks, personal marketing, bird dogs and referrals, I will also teach you how to perform repair estimates, how to negotiate with sellers, how to contract properties at a discount, how to sell deals to an end buyer, and how to get paid the difference for each transaction.

Many investors wonder why they should be wholesaling versus retailing. Let us tell you why. When you retail, it may take several months, not days, to complete. There are also monthly payments, property taxes, and insurance that you need to account for. Repairs are a must, but as a wholesaler, that's not really your concern. Although you may make bigger profits from retailing, there is definitely a lot more work and risk involved.

The next topic that needs to be emphasized is ethics. Just always remember to do what you say you will do, and do not mislead people. Don't make people worse off than before they met you. Always remember to maintain integrity and honesty. Pretty easy, right?

To summarize everything, I am simply going to teach you how to get paid quickly by being the middle man, and how to invest in volume. Why should you focus on vacant properties and properties that are not listed with agents? How should you set up systems so you can rinse, repeat, and reproduce great results?

Most importantly, I'll show you how to overcome the obstacles of being your own boss. Remember, every day will get much easier.

Investor Objectives

Before you fully dive into wholesaling, you must first determine, plan and focus on your investing goals. This leads us to Investor Objectives. The first step is to establish why you want to invest in real estate — and this is important because you need to find your focus. Constantly changing your mind will slow your progress, and that's not what I want for you.

Some of the more common reasons why people invest probably include the desire to make more cash or extra cash. People may be trying to find something to do with their extra time, or maybe they want to build long-term wealth or build a rental portfolio, or simply to create a means to leave their current job. On the other hand, maybe they just want to become wholesalers or professional real estate investors.

Regardless of what your personal reason is, you have to make sure you are willing to commit to whatever you decide to focus on.

Now that you have established the "why," let's talk about the "what." There are two main categories to investing. You have your short-term deals, in which you build quick cash up front, but you're not really collecting on any long-term equity. This includes your wholesaling, short sales, flips, and rehabs. This tends to be pretty popular among newer investors due to the fact of how quickly you can pick a property up and how fast you can make your money back.

The other category is long-term investing, where you actually do not make a lot of money up front, but you have monthly cash flow and you can collect on the long-term equity. This includes your rental properties, whether residential or commercial, and this includes your mobile home parks, houses, apartments, office buildings, retail, and self-storage. It's very important that you decide what to focus on because each category provides a different result.

Now, the next thing you have to think about is what type of return on investment you are looking for. Are you trying to get good returns quickly with short-term deals, or are you okay with collecting over time with long-term deals? If you are able to target desired returns against the risks on your short-term deals, they tend to be a lot less risky. Your long-term deals carry a lot more risk factors to consider.

The next thing you have to think about is the amount of time you are willing to invest. It can be a little or a lot, and it really does depend on the objectives and how much time are you willing to spare. Are you able to do this part-time or full-time? Once again, short-term deals tend to be much quicker and easy to manage on a part-time basis. Longer-term deals require a bit more full-time attention.

The next thing I would like for you to consider is how much experience you currently have. Depending on which category you decide to go with, you know it requires either a little bit of knowledge or quite a bit. It’s easy to say that short-term deals tend to be much easier to learn and much easier to close on. Your longer-term deals will require quite a bit more education and experience. So hopefully that gives you a little bit more perspective.

Also, there is a ton of other information available out there. You can go to libraries, download study materials, go to events, or even hire a coach to assist you along the way.

Now let's talk about cash requirements. You know, of course, that it's easier to invest when you have lots of cash or great credit, but what happens if you have neither? Well, there are many ways where you can invest without any cash or credit at all, but I will go into more detail about that in future e-books.

I really want you to think about your current risk requirements. Short-term deals generally carry less risk, and you're going to be making money back up front. For your longer-term deals, there really is much more risk involved, but once again, you can take on as little risk as necessary. It really depends on the deal. It can also be determined by the size of the deal and the players.

As you can see, there are lots of ways to wholesale and invest in real estate and lots of things to think about before starting in real estate. But in order for you to reach your goal, you must first establish one.

Building Your Team

Once you have your goals and objectives established, let's talk about the next component of your business: your real estate team. When you start out, it's not completely necessary to have every single component in place in order to complete a transaction, but it will definitely help once you learn how to start investing in volume.

To start off, you want to make sure that all members of your real estate team are knowledgeable and experienced professionals. They should also have experience working with investors, and it's important that a large percent of their business are predominately investors. The more familiar they are with how investors work, the fewer obstacles you'll run into in the near future, right?

A good place to start finding team members initially is your local real estate club. It's a great place to network; a lot of real estate professionals go there. You could also ask your closing agents or your real estate attorneys for referrals, or you could just simply talk to your real estate investor peers. Most likely, they have people they've been working with that they could suggest to you. So these are great places to get started when building your team.

Let's talk about the actual team players, and this is not in any particular order. First on your list are your closing agents. These people can be found at title companies. It could even be your real estate attorney. It's important that they're quick at what they do, they're experienced, and they’re comfortable working with investors. That way, they will know how to creatively structure their closings in order to help you.

Second on your list are your insurance agents. Now, it's important that your insurance agent has experience working with investors as well. That way, he or she will be more familiar with the different policy types (for your vacancies, for your landlords, and for your tenants). Just remember, it's very important that the person you work with is able to offer you volume discounts, affordable coverage, and reasonable premiums. Of course, in true wholesaling an insurance agent is unnecessary, but you may run across some deals that are too good not to keep.

Third on your list are your real estate agents. Just like your insurance agents, you want to make sure they're comfortable working with investors on a regular basis. It's also a good idea to make sure that a large percentage of their client base is investors. You also want to know that the realtor is familiar and experienced with submitting offers and running reliable property comps. If by any chance you find a realtor who is very familiar with the city you are investing in, that's going to be very beneficial to you, especially if they know which areas have been selling and which areas have not.

Fourth on the list are your buyers. You should consider them as your lifeline. These are your cash buyers, foreclosure auction buyers, rehabber landlords, and Section 8 landlords. These are the people you will be selling to. I’m going to show you exactly how to build your buyers list and have a steady pipeline that you can tap into for all of your deals.

Fifth on your list are your contractors. These are your general contractors and/or handymen. They are great to have on hand because once you build the relationship with them; they'll prepare free repair estimates for your offers and for your buyers. They are also familiar with how to provide quality work to the level needed for an end buyer and you can leverage them by offering their services as a package. This way, your contractors get paid and your end buyers are taken care of.

Sixth on your list are your home inspectors. The most important quality you want for your home inspectors are that they are fast and thorough. You also want to make sure that they're affordable and patient enough to let you walk around with them and ask questions. See if they're willing to teach you the basics so you're better prepared the next go around. It's smart to familiarize yourself with a reliable home inspector because you can usually ask for a volume discount. After you become more experienced evaluating properties, you may only use inspectors sparingly or not at all.

Seventh on your list are your appraisers. You want to make sure the appraiser is fast, thorough, and knowledgeable on subject-to appraisals. After some time, they should be comfortable with offering you volume discounts and the occasional last-minute request to help. An appraiser is not required and you or your agent may be able to get accurate comparable sales prices for your property, but know that there are professionals available who provide real estate property values for a living.

Eighth on your list are your lenders. These are the people who help you close on deals, so you want to make sure to focus a bit more time and effort on this part of your team. Your lenders include your traditional institutions, which are banks, credit unions, and mortgage brokers. You also have your hard money lenders, which are equity-based lenders that have low LTVs and high fees, and your private money lenders, which include family, friends, other investors, and professionals such as your doctors and lawyers. Your loan term and rates for these types of lenders will vary by type of lender and on a case-by-case basis.

Ninth on your list are your real estate attorneys. As previously mentioned, they can also be used as your closing agents. Now, not every investor has one, but in case you need someone who is an expert with investment issues they're great resources to have in your back pocket. Just make sure that their fees are reasonable for your budget.

Tenth, and the final member of your team, are your tax professionals. When you start investing in volume, managing your taxes for every property that you have bought and sold can be a nightmare. Having an expert who is used to managing sizeable portfolios can be very beneficial to you and your time, and as a bonus they will know ways to save you money come tax season.

In conclusion, it is very important to know who is on your team. You absolutely need to qualify them and make sure that everyone's goals are in line with yours. This business is all about networking and maintaining relationships. Over time, with more experience, these team players will change, but that's okay. It's the name of the game. Remember, this is a process. It will take some trial and error, but it will definitely pay off in the end.

Finding Wholesale Buyers

After you have established your real estate team, it is time to start finding your buyers. You're probably thinking, “Wait, I haven’t even found a property. Why do I need to find a buyer?” That’s a great question. Wholesale deals move quickly. Some are sold within hours from the time they’re put under contract. If you look for buyers after you've found a property, it will not only cost you some valuable time, but in some cases it will even cost you the deal itself.

Having a list of trusted buyers ready and in place allows you the luxury of closing deals quickly and will ultimately allow you to start investing in volume. So how do you start finding buyers? A great place to get started is online. If you have your own website, that’s great. If you don't, I suggest you start looking into creating one. Developing a website for this purpose will not be expensive or difficult. The main purpose of having your own site is to allow a place for buyers to leave their contact information. That way, you can qualify them at your leisure.

You can also refer to a real estate investors site, and you can just simply Google them. Try looking at Craigslist’s ads or social sites such as Facebook, Twitter, Linkedin, and MySpace, because you never know when a friend of a friend of a friend may be looking to buy real estate. You can also look in your local newspaper ads in the real estate section, or even the community papers such as Thrifty Nickel and GreenSheet. Some of the print newspapers are online now. These papers and websites are great, free resources for finding buyer leads.

Another great way to find buyers is to attend local real estate club meetings. Club meetings are great places for networking and meeting potential buyers. If you go enough times, people start to notice you, and if you become a serious player in the industry, more than likely referrals will just start flowing in.

Another method of finding buyers is accessing public records. You can search documents for deals that were bought with no loans, and these will be your cash buyers, or you can search documents for deals that were sold using private lenders. This information can typically be found at your county courthouse or wherever they keep property records.

This last method might be considered old school, but it works. They're called bandit signs and you see them everywhere — on the road, on the light posts, at street corners — and they usually say, "We buy ugly houses." It's your choice whether to put up your own signs to find buyers by advertising wholesale properties or call the ads posted by those investors looking to buy. I suggest you do both.

And of course there are more popular ways of finding buyers. Trust me when I say this list provided is more than enough to get you started.

Now let's become familiar with the different types of buyers. And remember, this is your lifeline.

Now first you have your cash buyers. These are your best buyers because they have cash in the bank and established lines of credit, and they make quick decisions and are quick to close. It is important that you cultivate this type of buyer. These will be your go-to buyers as often as possible.

Second are your borrowing buyers. They take out individual loans for a property transaction, and they may or may not have a good relationship with their lender. These types of buyers may run into loan complications and you may have to assist them in getting the funds to buy your deals by introducing them to other lenders.

Third are your rehabber landlords. Typically, they look for properties at a discount with the intent to fix it up themselves. They have many ways of purchasing properties, whether with cash, a loan, or collateral (a secured loan).

Fourth are your Section 8 landlords. Like your rehabber landlords, they are looking to buy properties at a discount and fix them up well enough to rent to a Section 8 tenant. Section 8 refers to government-assisted rental payments for tenants.

Now that the core buyers have been established, let's discuss buyer rapport and qualifying your buyers. It is very important to prequalify your buyers in order to determine how serious and capable they are. In this business, you will come in contact with a variety of players, and not all of them will follow through. That's why you want to make sure to build relationships with the buyers who have proven themselves time and time again.

There are several prequalifying questions that you need to ask everyone on your buyers list. Find out what their preferences are, and use them later to match the buyers with the right properties.

- How many properties do you buy and sell a month (or a year, if they hesitate)?
- What types of properties do you like to buy (number of bedrooms, baths, etc.)?
- Are rehab/fixer-up specials your preference, or would you prefer to purchase "prettier" homes?
- What price range do you like to operate within? Wholesale price? After-repaired value price?
- Will you consider all areas to buy in, or are there areas of preference and other areas that I shouldn't waste time calling you on?
- If you write up a property to buy, how quickly can you usually close?
- Can you pay cash for properties? If yes, would you mind producing verification of your ability to do so?
- Do you borrow money for your deals? If yes, would you be able to produce documentation from your bank stating this?
- Do you need any help securing financing? I have some resources lined up that don't mind lending for the great deals that I come across.
- Do you have a credit line established for truly great deals that have to close quickly? If yes, would you mind producing verification of that credit?
- If you are using a bank, what requirements do you need (i.e., appraisal, title work, repair estimates, home inspection, termite letter, etc.). For example,

if you know clear termite inspection is applicable and your subject property has considerable termite damage, this may disqualify this particular buyer, even though you fully intend to disclose this fact to them.

- How do I reach you? (Get their contact information, such as their name, phone numbers, fax number, mailing address, or e-mail address.)
- What attorney do you usually close with?
- How did you hear about me?
- Do you know of other investors like yourself that I can add to my database?
- Is there a best time to reach you, and what is the preferred method (phone, text, or e-mail)?
- Do you have a contractor to work with for great deals that need repairs?
- Generally speaking, what type of profit margins or buying criteria do you look for? (You will get a lot of different answers here; some may say, “Just bring me the deal and I’ll look at it.”)

After a few encounters, you will learn what property types they want, their preferred areas of interest, and how to finance their deals, whether they use cash, credit, or loans. Some of your buyers may even want to start investing in bulk with you after you have successfully completed a few deals with them. Just remember to be cautious of your buyers who have bad reputations, don't keep their word, or are unethical. There are plenty of qualified buyers out there, so you don't have to test your luck with these weasels.

In summary, I want you to build your buyers list, continue building your list, and nurture your core group of buyers so you can consistently be closing deals without having to scramble around looking for a buyer. As I mentioned in the beginning, building your buyers list is one of the most essential components of your business. It would be smart to focus your time and energy here.

Finding Motivated Sellers

Next let's talk about finding your sellers. In this section, you're going to be using many of the same strategies from the Finding Wholesale Buyers section. For example, you will be using your own website to capture seller lead information. On your website, you'll have one contact form for your buyers and a separate one for your sellers or you can have separate sites for each. You'll want to ask the sellers really easy questions on the form or have a place for them to leave information about the property they are interested in selling. This will give you a rough idea of how to follow up with them. Now, with proper online marketing, you'll have plenty of leads passively coming through the site just to have that part of your business taken care of.

Before you start looking, though, be prepared to recognize some of the things that sellers will say to red-flag their properties for you. When you see one of these phrases in an advertisement or online, or when you hear these words from a potential seller, you'll know that it's worth your time to meet with the seller and get some more information.

Here are some crystal-clear signs of a motivated seller.

- I just don't know what I'm going to do with that house anymore.
- The people living there are just a daily headache for me. I can't get them to move, and they haven't paid me anything for the last six months.
- The house just has too many repairs needed and I don't have the money to fix it up.
- I guess the city will just tear it down because it's condemned, you know.
- My father used to be in the real estate business and he passed away. I'm living three states away and there is no way I can look after that house (or those houses).
- We're moving anyway, and if you think you can save the mortgage on it, then tell me what's in it for me?
- I need to sell the house soon because I need money for…
- I just can't afford to make two house payments much longer.
- I don't have the money to make up the back taxes. Can you still buy the house even though it's going to tax sale?

- I didn’t even know I wanted to sell until I got your letter, and I’m just tired of the headaches.
- I saw that you buy houses in any area. Well, I have this house over in…
- I just need something out of it, and anything would be better than nothing.
- How can you buy the house when the last two Realtors that it was listed with couldn’t even sell it?
- I know you are an investor and have to make a profit, so what are your thoughts on the house?
- We just have to have some money quickly because...
- That house used to be my mother’s, and I just don’t have the time any more or money to fix it up like it needs to be so I can sell it.
- I can’t be there watching over the place here in Florida, and I just need to sell.
- We split up and neither one of us can afford the payments, so the bank will just have to take it back over.
- I don’t know if you can help me because I’m behind on my payments but here is what I’ve got…
- This letter I got from you stated that you buy properties in any condition. What if a tree has fallen through the house?
- You may not want to look at this house because it’s had a lot of burn damage.
- I am 73 years old and am just tired of rentals, but I like the cash flow. I would be willing to do some owner financing for the right type of person.
- I don’t need all my money now, but something showing that someone is serious would be nice.
- We never had the Will probated, but my brother, sister, and I would like to sell it. Do you how to get clear title and find a way we could do this?
- I am trying to get out of it what I’ve got in it.

- I received your letter and you must be divine intervention.
- I just need to get this house out of my hair once and for all.

Next, you can use real estate listing sites. Now, there are a lot of paid sites and free sites. I recommend that you exhaust a lot of the free options when you first start out. You want to look for properties that are listed for sale or for rent, and look for comments that show interest in investors. Look for key words such as "needs work," "investor's delight," "as is," or "handyman's special." These are really good indications that people are looking for investors.

You can also use social sites. I know it's not very conventional, but it's a great way to network. Use Facebook, Twitter, LinkedIn, or MySpace. It doesn't really hurt to post on these sites and let word of mouth spread like wildfire. And they're free to use. This is where a lot of the traffic is starting to go, and if you aren't on some of these sites, then you are already behind. So get to it.

Of course, you can also turn to using online ads such as Craigslist. You can list properties for sale and for rent absolutely free. You can also use newspaper ads online, or if your area is still doing print newspapers, it's a great opportunity. Just look in the real estate section. You can also use community papers, your local Thrifty Nickel, Green Sheets, and your community newsletter, which are found in your rural areas.

You also want to target your flyer campaigns. If you do have any direct mail or something like that, in every city certain neighborhoods have the best characteristics for wholesale deals. Those could be your farm neighborhoods, where you focus the majority of your advertising. Most of the time, your more experienced real estate agents will know of these areas, so just ask around and try to gather that information.

Another great resource is the MLS, or the Multiple Listing Service, which the majority of all real estate agents have access to and where you can actually search for motivated sellers. A really good tip is to have your real estate agent pull the expired listings. Now these are properties that were once listed but had difficulty being sold or rented throughout the duration of the listing agreement, so more than likely, the sellers in these listings may be ready to take offers they would not have considered before, just to get some activity. So pay attention to these types of listings.

You can also access your city's public records, which can be found at your city's appraisal and tax district. You can request to see properties going through probate, divorces, and evictions. It's good to find tired landlords, because they potentially have other properties that they're trying to get rid of.

You can also look for absentee owners and properties in code violation. These types of properties are worth exploring because they usually fit the profile of properties you will be looking to invest in.

Another great way to passively find sellers is to use bandit signs. These are the "We buy houses" signs. If you want to target tired landlords in high rental areas, you can find these people by asking your realtors where the popular areas are so you can put the signs there. You'll more than likely pick up a few leads here and there on a weekly basis. Just remember, each city has different rules of when and where you can post bandit signs.

And despite what others say about direct mail, it is also an effective way to find sellers. You can pretty much target the same areas as your bandit signs.

What you need to do is focus on the top three methods that are bringing you sellers. Focus your marketing — and we recommend you do this part on your own and allow the sellers to find you. It's important that you know where your leads are coming from so you know how to adjust your marketing accordingly.

There is no point wasting money on a campaign that isn't working. You have to remember, this is a numbers game. You will need a ton of leads — a ton of leads — more than you can handle because when you have a ton of leads you won't have to work with marginal deals. There will be plenty of good deals that you can pick from.

So you've found people who want to sell, and you've heard a little bit of their stories. Now it's time to prequalify them and see if their property could be a good deal for you.

Here are some questions you could ask in order to get an idea of what you're looking at.

- Tell me about the house/property (number of bedrooms, baths, amenities, etc.)?
- What do you like most about the house?

- What do you like the least?
- Why do you want to sell the house?
- Have you had any offers to buy the house recently?
- Are there any repairs needed that you know about, and if so, what do you think it may cost to get the house in A-1 shape?
- Why haven't you considered listing the house with a Realtor?
- What would you think the house would appraise for if it were in A-1 shape?
- What do you base that on?
- Would you have an idea of what the house would rent for in that area?
- How did you find me?
- Do you own the house free and clear?
- (If No) Would you sell the house to pay off your current mortgage?
- If you have a mortgage, what are your monthly payments?
- Is your mortgage current on the payments?
- If not, how much would it take to make the mortgage current?
- What would it take to make it worth your while to sell this house?
- If someone were to pay you cash, what would you be looking to receive? (Don't get into too much phone negotiating, just get a ballpark indication here.)
- If somebody were to buy your house, then how quickly would you want to close? (If the answer is "the quicker the better," then ask why.)
- Do you have a ballpark range of what you're looking for on the property?
- If someone were to buy your house, would you have to have all your money now?

Knowing the answers to these questions will help you to do two things. They will help you to match the property to the right buyer(s) on your list, and they will help you to begin analyzing the deal.

Deal Analysis

In this section, we're going to be covering deal analysis. It's easily one of the core fundamentals that every investor must learn in order to effectively invest in real estate. Knowing how much to pay for a property or how much to sell it for, determining repair costs, or even determining if it's worth your end buyer's time are all essential decisions that are made based on what you know about a property. So let's go ahead and get started.

The very first thing every investor must do before anything else is to pull comparables, which are also known as property comps, for the property of interest. The majority of the time, you can request these from your real estate agent. You can also ask appraisers and utilize online services, but you must specify what you are looking for. You want to request comps for several, very similar properties within one mile of the subject property and make sure they have the same number of bedrooms, bathrooms, parking, and square footage, and the same type of construction. For example, you do not want to compare a house that has a garage to one that has a converted garage because the square footage will fluctuate.

Now after you pull your comparables, you should have a rough idea of how much the property you are interested in is worth. But it’s hard to fully determine if this is a good deal for a potential investor because you have not assessed the repair costs. It is very important to pull multiple repair estimates because there are large cost discrepancies between mom and pop shops and large company estimates. As a wholesaler, going with bigger companies is okay because more than likely the investor you will be selling to will have cheaper alternatives. This means more money for them to make.

Typically as a wholesaler you will not have any of the longer-term costs like monthly payments, insurance, utilities, etc.. In the rare situation where the deal is too good to pass up but these costs are required to make the deal work, then at that time it is very important that you familiarize yourself with what the costs will be.

You should also consider the location of your property. Does the neighborhood you want to invest in have mostly owners or renters? This is very important because you need to know how to cater to your current list of buyers.

It will also be helpful to research potential selling points such as the quality of schools in the area and the amenities (recreational centers, public pools, hiking trails, etc.). Also, how close is the property to major city outlets and public transportation centers? These are all selling points that can be emphasized to a potential investor to pique their interest.

Another good tip for determining whether or not your property is a good deal is to check out your competition. If you are not accustomed to walking through other properties for sale in the area, then you are really hurting yourself. Being able to see what your competition is doing will always give you a slight advantage. It will help you determine what kind of updates need to be made or if the buyer has questions about another property price being lower than yours. That way, you will know exactly why and you can explain why yours is better.

It's always good to invest in areas that have steady activity. What that means is you have to invest in areas where properties are moving quickly. You can find this information by asking your real estate agent to provide you with listings of properties bought and sold in the past 30 to 90 days. You are looking for the days on market or the average days on market. The lower this number is, the better. For any property that has not been sold within 90 days, you should probably look into why. Is it the price? Is it maybe because it has not been updated? You don't want to make the same mistakes as your predecessors. Remember, you want to be able to move your property quickly.

Now how do you determine your offer amount? You should be able to determine this after you pull your comps and estimates. You are simply going to take your after-repaired value, less repairs, less other costs, less your buyer profits, less your profits. These valuations should be based on your buyer's criteria and remember, your first offer needs to have negotiation room for your profit. Just keep in mind that there are many varying factors in wholesaling and it’s not common that a simple offer formula is going to give you a good number. You need to do the math yourself based on the current property and situation.

Also, be sure to determine whether your end user will be a tenant or buyer or owner. There will be some deals that may work for some of your buyers and not others; the key is to adapt to the market. Don't pitch and hold yourself into a bad deal. And remember to make enough offers so you'll get some deals that fit your criteria. If you have multiple possible exit strategies for a deal, that will significantly increase the probability of getting the deal sold and getting paid.

Negotiating With Sellers and Buyers

After you have found your buyers, your sellers, and the property you are interested in, the next step is negotiating the deal. There are two main perspectives, the buyer's and the seller's. We're going to cover both. Please keep in mind that, although negotiating is not the core focus of this e-book, I will cover the basic items you will need to consider.

Let's talk about negotiating with sellers as a buyer. There are many tips and tricks you can use to gain an advantage over your competitors, but what I have found to be the most effective is to simply build rapport with your sellers.

Every seller has their own story to tell, and you'll be surprised at how much information they're willing to give you just for listening. So it's very important that you ask personal questions to strengthen your relationship with the seller. If by chance the seller happens to be a fellow investor, you can ask questions like, "Do you live around here?" "How do you like the area?" "How long have you been investing for?" You know, one of the best questions you can ask him is, "Do you have any other properties for sale?"

Remember to be friendly, give compliments, and ask and answer questions. Be polite, and remember this is still a business, so be assertive. Every question you ask must have a purpose. For those of you who are not confident in their speaking skills or not comfortable speaking to new people, then we suggest preparing a credibility kit. A credibility kit is a packet that includes your biography, testimonials from past transactions, list of prior deals, and a summary of you as an investor that explains why a seller would want to work with you over anyone else. Now, this gives the seller something tangible to hold onto because you can leave it behind as a reminder. If you don't have one, there are many cheap ways to put one together. However, that doesn't mean you shouldn't take the time to make it look well put together. Use a binder, some dividers, some pictures — like I said, it's very, very cheap to put together.

I also recommend having a phone script and a property checklist ready prior to calling back any leads, especially if you're not a good speaker. Having a script and a checklist allows for consistency and makes speaking with sellers easier. There is a lot to cover in a short period of time, and if you want to sound like you know what you're doing, you absolutely have to have these systems in place.

Now when it comes to the price, you should have a good idea of how much to offer based on your comps and property analysis. If you are counter-offered, try to get them as close to your number as possible, at which point you'll ask, “Is this the best you can do?” Be assertive and do not break eye contact, and wait as long as you need for a response. It's very important that you don't appear weak here.

There are some terms you will need to clarify right away. Will the seller need cash up front, or do they need it all now? Could this person perhaps work with a payment plan? You also want to make sure that the seller gives you 24/7 access to the property so prospective buyers, inspectors, and appraisers can get into the property. Not having access is a red flag because it can throw a wrench into things when you are trying to flip the property quickly. Your buyer will have people he wants to get into the property in addition to the buyer’s own visits.

Typically you would like the closing timeframe to be around 30 to 60 days, but the faster the seller wants to close, the lower the price they typically get. You'll make low cash offers based on the quickness of closing, but we suggest 30 to 45 days in order to find a qualified buyer.

As for the specific closing costs, it's in your best interest that your seller does not go into closing assuming anything. Be sure to consult with a title company or real estate attorney to see how costs are usually split at closing. You could also consider telling the seller you’ll cover all closing costs and then asking your buyer to pick up all or part of the closing costs. That makes for an easier sale.

Here are a few of the main items. First, you have your title search fees, which usually the seller pays to prove that the title is clear. There should be no liens or judgments on the property.

Next, you have your property tax. The most accepted method is that the seller pays for the taxes up until the date of closing and then buyer pays for tax responsibilities thereafter.

You may also have a sales or transfer tax. Find out which taxes are applicable in your state. They do vary. You also have your attorney fees. These are charged to the buyer and the seller separately, and the prices generally range from $150.00 to $400.00. You'll also have to negotiate the closing location. It's ideal for the closing to be with your real estate attorney or title company. This way, you get more favorable terms at closing and have more control. It's also quicker, and it's easier to file the paperwork.

When you negotiate with a buyer, your main focus is the price. Make sure you know how much total room there is to negotiate with on the price and ask yourself, “How much money do I want to make on the deal and what is my bottom line?” It's ideal that your buyer is able to close in 15 days or faster, and when you spend the time to build a solid buyers list, 15 days for a closing will become more common. Once you get your systems down, you can close deals in one week or less.

Regarding your closing costs, there are certain fees the seller will offer to take and then there are some that the buyer will take. As a new seller, you want to make sure that the deal goes through so if you have to eat a few of the costs to make your buyer is happy, do it as long as it doesn't kill your profit. And just like your seller, you want to make sure your buyer is going to be closing at the same title company for many of the same reasons.

Now, I understand that negotiating deals can be difficult and every transaction is unique. So I suggest accessing your public resources to further hone your skills. If you go online and simply search for “the art of negotiation” or “real estate negotiation” and “seller negotiations,” you will more than likely pull out a few nuggets of helpful tips. There are also plenty of negotiating training courses or books at your public library that you can look into to further educate yourself.

Negotiating real estate investment deals is a critical skill every real estate investor must possess. It can either add or subtract thousands of dollars from your profits. Like everything else in real estate investing, it gets easier with practice.

Making Offers

Now the next thing that needs to be discussed is how to manage your offers and contract clauses. First things first: your seller offers. It's easiest to create a formula chart. I recommend using Microsoft Excel, since you can create tables and equations where you can simply plug in numbers and it will calculate everything for you. This will allow you to replicate the process for every offer; remember, systems create ease and speed.

Your offer worksheet should have the following information on it.

A. After-repaired value (ARV)

B. The percentage that your buyers will pay for the property, including the cost of repairs and/or their desired profit number

C. Closing costs that your buyers will pay

D. Amount of the repair estimate

E. 3 percent of the ARV (to allow for “Murphy’s Law”)

F. The percentage or amount that you would like to take home as profit (somewhere between 5 and 10 percent of the ARV is common)

Once you have these numbers, then the formula is (A * B) - C - D - E - F. The result is your wholesale offer.

No matter what anyone has told you, there is no magic bullet, so simply taking 70 percent of the after-repaired value minus your profits is not going to cut it. There are many factors you still have to consider and variables that change by deal; for instance, 70% of a 50k deal is not the same as 70% of a 200k deal. Repair estimates must be as close to the actual cost as possible. Taking averages of your repair estimates is a good start.

You also have to consider the amount of potential profit your end buyer will have. If you take too much of the profit there won't be enough room left to attract any end buyers. Remember, you're trying to make money, but you also want your buyers to make really good money so they'll come back to you for more deals. After you have run the numbers on at least ten deals, it will get easier and you’ll have a much better feel for where you need to be with your offers.

Contract Clauses

One of the most important clauses to put in your contract should make sure that you are given 24/7 access to the property. You'll want to request for a key so your potential buyers and their inspectors, lenders, appraisers, etc. can get into the property with ease.

For those who don't know what contingencies are, a contingency is a provision in a real estate contract which specifies that the contract would cease to exist upon the occurrence of a certain event. In this case, if anything is found to be an issue with the following contingencies, the contract would be null.

It’s important that you have the proper contingency clauses in your contract as a buyer so that you can gracefully exit the deal if it turns out you didn’t account for everything properly and/or if you’re not able to find a quality buyer to close in time.

You’ll want to request a standard 10 day to 15 day inspection period. This is an ample amount of time to check out the property for any potential deal breakers, such as an unstable foundation, a septic tank bust, or any other big ticket items that could destroy your profit based on your initial offer.

You also might want a third party’s approval. Whether this third party is your partner or a funder, they might catch something you didn't, so it's always great to get a second or even third opinion as long as it's done in a timely fashion.

Consider the amount of earnest money. It’s important this is the sole remedy for nonperformance for your contract when buying. You’ll want the earnest money amount you put up to make it a binding contract to be as small as possible. You’ll want your buyer to put up as much as possible because when people have their own money vested into the deal, they tend to take it a bit more seriously.

Now, some of the best advice we can give you is to make sure everything is in writing. In this business, verbal agreements do not protect you. Written proof does. So no matter what is verbally agreed to, it is your responsibility to make sure that that agreement makes it onto a piece of paper along with the signatures of all the people who are involved in the transaction.

You should also have a real estate attorney look over the documents and put his or her stamp of approval on it. Usually, when you submit a contract, you have to include some kind of earnest money for good faith to secure the contract. Typically, there is no set requirement, so try to put in as little as possible. It can be anywhere between $10 and $100, and it could be $500 if an agent is involved. You also want to remember to put an expiration date on it. Usually, 48 hours or some other kind of quick time frame is sufficient enough.

Here are five tips for how to handle your earnest money.

1. Never make your earnest money deposit payable directly to the seller.

2. Make the deposit payable to a reputable third party, such as a well-known real estate brokerage, legal firm, escrow company, or title company.

3. Third, verify that the third party will deposit the funds into a separately maintained trust or escrow account.

4. Fourth, obtain a receipt for the earnest money.

5. Fifth, do not authorize a release of your earnest money or pass-through until your transaction is closed.

For your buyer offers, you will want them to submit earnest money that is nonrefundable and you will want them to put in as much as possible, preferably $1,000 up to $5,000. This will determine the seriousness of your buyer and will help insure that they will follow through with the transaction. Otherwise, if they back out, you keep the earnest money and then simply find a new buyer.

Remember, just like your seller offers, make sure everything is in writing and is approved by an attorney. This is the safest way to make sure your wholesale contracts are solid and you're not at risk.

Marketing Your Deals

At this point you may be overloaded with information, but bear with me — we're almost there.

The second to last topic we'll be covering is how to market your deals. At this point, let’s assume you have your buyers list well under way. Now you get to learn how to use it.

Probably one of the easiest, quickest, and cheapest ways to get your property into the right hands is by e-mail. You can blast your new list of buyers with all the property information and see who bites. You can also send them to your personal site, which we talked about earlier, where they can see all the details of your listing.

One tactic that is growing in popularity is texting. This type of service works well, and it's a quick way to get your property info out to your buyers. Keep your texts concise and include major selling points. Remember, this is only a text, so make it a quick read.

Another approach is by fax and phone. You can either fax the listing to all your buyers or interested buyers, or you could simply call them all. There are companies out there that will voice-blast your list for you, but be sure you have some kind of permission check box when people leave their information on your site. You also have voice-mail trees you can set up. You know, these are the automated scripts where you can press 1 for option this, or press 2 for option that. That way you can start to automate the entire process.

Next, you can try direct mailers, which are also quite effective, especially if you focus your marketing in the neighborhood where your property is located. You can send customized postcards or letters; there are companies out there that do this for you door-to-door. As previously mentioned, Craigslist and social sites are your best friends. They don't cost anything to use and there is a massive network out there on these sites. These are just good sites for generating passive leads.

A more direct approach is to attend your local REIA club and advertise to other investors at the meeting. You could also simply leave flyers there for those who are interested. No matter where or what you decide to focus your marketing on, just remember to include as many pictures of your property and as many selling points as possible (where applicable, of course).

On some sites, such as YouTube and Daily Motion, you can even create virtual and video tours and send traffic there for a more personal touch. It's important that you find a marketing system that works for you and that continues to generate consistent results, not only for your future deals but also for the opportunity to market other deals for other investors for a fee. When you get results, people will want to work with you.

Remember, marketing allows you to constantly develop your core buyers list. By creating easy systems to get property information out to your buyers, your volume can go way up. So take the time to set up your marketing. It's one of the most important components of your business.

Closings and Getting Paid

The last and final topic that we will be covering is closings. After all your hard work, this is the final stage, so let's keep the momentum.

The first thing you have to do, if you haven't already, is find a reputable title company and/or closing agent or closing attorney. What you want to look for is how fast they can check the title. On average, it should take no more than two to three business days. If they take longer than this, you'll know it is time to find another title company.

Now there are two types of closings for wholesale deals. You have your simultaneous closings, also known as your double closings or back-to-back closings where the buyer's funds are used to help close the deal. Typically, the buyer will show up in the morning and the seller afterward. Really, the sole purpose of this type of close is to obtain the buyer's cash for closing.

Your second type of transaction is your transactional closing. This is where you would use a short-term third party to fund the close. Typically, for this type of transaction, it is the obligation of the initial buyer or the "b" side of the transaction (in the "a" to "b", "b" to "c" transaction) to find a qualified end buyer who is the "c" of the transaction to repay the third party transactional funder.

As we mentioned before, it is very important that you get both the buyer and the seller to close at your title company. Once again, this does make the paperwork easier, plus it saves time, energy, and money. You also want to be familiar with your closing agent, who understands how to structure wholesale contracts and how to handle back-to-back closings and double closings.

Just make sure, though, that your buyer and seller show up at different times, preferably your buyer in the morning and your seller later in the afternoon. You never want them to meet each other and start talking about what your potential profits may be. It's never good news.

There are certain closing costs that are negotiable. You have your wire fees, attorney fees, tax service fees, title insurance, and title examination fees. Once again, these are negotiable. They are not very common, but again, it's very important to talk to your title company or real estate attorney to figure that out and see which ones are a little bit more flexible to work with.

Although there are two closings with the "a" to "b" close and the "b" to "c" close, you should not have to pay two full sets of fees. The best advice that I can give you is to be more flexible with the seller side, and I'll guarantee that the buyers are going to be definitely more flexible with you.

Typically, a seller comes in the afternoon to sign the documents. The seller does not need to know the profit margin for the wholesaler. And the way to get around that is to have the title company or your real estate attorney draft a separate settlement statement where they do not have to disclose how much money you're making. The seller just needs to know the total sales price.

For your buyer's closing, the buyer should close first in the morning so you can use their funds. If need be, you could also have someone draft a separate settlement statement for them.

Now, after all your hard work, how does a wholesaler get paid? Well you get paid a check for the net difference between the two transactions. That's it. Real estate closings are generally pretty straightforward for real estate investors. Your main objective as a wholesaler is to make sure that the "a" and "c" sides of the transaction go smoothly and that all parties are happy — mostly your buyer, of course. This may require your title company to creatively structure the paperwork for you, after you have creatively negotiated the deal. Remember to never throw away a deal for a few dollars. Eat the cost, make your money, and then get out. Then rinse and repeat.

Conclusion

Overall, there are many moving parts when it comes to wholesaling, but with the right focus and a bit of practice, I have the confidence that you'll be able to figure it out. Just like anything new in your life, it gets easier with knowledge, experience, systems, mentors, and networking. Wholesaling real estate offers great pay for the amount of time spent on the work and is one of the least risky forms of real estate investing in today's market.

Not only can you do it in your spare time, it can also be done with little or no money and little or no credit. With everything we have discussed so far, you have the information and tools needed to get started today. And remember there are tons of free articles, videos, blog posts, etc. available on REIClub.com.

Your big paycheck is around the corner! I look forward to hearing about your successes. So take care, and good investing!