How to Evaluate a (Wholesale) Real Estate Deal

The key to running a successful wholesaling business is to find great deals and quickly resell them to other investors at huge discounts so they can make a decent profit. To determine if you have found a great deal you must first understand how to conduct an effective evaluation of a real estate deal.

Whenever I am evaluating a deal, there are 3 simple questions I ask myself:

- What will it cost me? (Purchase Price)
- How much does it cost to repair? (Rehab Cost)
- What can I sell it for? (ARV or After Repair Value)

What will it cost me? (Purchase Price)

Usually, when a novice or retail buyer searches for a home they aren't aware that ALL prices are negotiable. They tend to think that the listing price, the homeowner's asking price, is set in stone. This is absolutely NOT the case.

When evaluating a real estate deal, you must determine the price that works best for YOU and your end goal. If you want to make $2k or $20k, the numbers have to reflect that.

Be careful not to low ball or overprice a property. Doing so may cause you to get an offer rejected or even worse, not assigning the deal to an end buyer before the contract deadline. This wastes valuable time and nets you a whopping $0.00!

Rule #1

DON'T BE GREEDY. If you really want a property, figure out the maximum amount you are willing to pay for the property and make your desired profit. Then offer that amount. Otherwise you may lose the property because if it is a good deal, someone else is likely making an offer too. With that said, **NEVER** over pay for a property!

How much does it cost to repair? (Rehab Cost)

When analyzing a property, it is important to find out how much the repairs will cost. After repairs are complete, the property should be in great condition. Underestimating your repair costs can be the difference between making a profit (success) and taking a loss (failure) as a real estate investor.

Failure to provide an accurate estimate of the rehab costs can hurt your business. You will lose credibility with cash buyers and chances are you won't close ANY deals.

Experienced investors or people with a construction background can typically determine these costs without a 3rd party inspection. As a new investor, you should get quotes from two or three contractors and build the price into the offer you make.

In making your offer, you need to keep your buyer (the rehabber), in mind. Your offer should be based upon a conservative estimate of the ARV, minus money for repairs and a profit margin for you, the wholesaler.

Rule #2

My formula for determining my offer price would look something like this:
(ARV - rehab cost - wholesale profit) x 65% = Max Offer/Purchase Price

Ex: $100k (ARV) - $20k (Rehab Cost) - $5k (wholesale profit) x 65% (typical rate investor purchases property at) = $48,750 (Max Offer / Purchase Price)

How much can I sell it for? (ARV)

Before putting a property under contract you must know what the comparable properties in the area recently sold for. These are what we refer to as comparables or “comps”.

A comp will have a similar construction type, number of bedrooms and bathrooms, size (square footage), condition (move in ready or needs rehab work), is within ½ mile proximity to the subject property and was sold within the last 6 months.

You can hire an appraiser but that can be very costly and is not recommended. A better option is to work closely with a realtor who is investor friendly (not all are) and is willing to perform due diligence for you in exchange for listings.

Rule #3

Establish a strong relationship with an investor friendly realtor.

Other resources

If you do not yet have a realtor who can help you, here are several resources you can utilize to help determine the ARV of a property.

Zillow.com
Zillow is the biggest player in the online home valuation industry. They provide a “Zestimate”, which is an automated estimate based on public records and sales “comps”. You can also search for SOLD listings to determine your own comps.

Trulia.com
Like Zillow, Trulia allows you to search SOLD listings to gather comps.

Redfin
This is an online brokerage that has an online property valuation tool.

Realtor.com
Realtor.com is now allowing you to search for your home's worth by showing what houses sold for in your area.

Property Shark
Property Shark provides public data on a property, recent sales, sale history, and comparables.

Paid Property Valuation Websites

Home Smart Reports
Home Smart Reports has a paid house value search engine including property information, nearby sales with map and a neighborhood summary, as well as a much more advanced report with risk analysis, many more comps, and other statistical charts.

RealQuest.com
The RealQuest service provides tons of useful data on a given property. Basics include: Property Detail Report, Comparable Sales, Parcel Map/Assessor Map, Street Map, Neighborhood Information, Legal and Vesting, Automated Valuation (AVM), Transaction History, Custom Searches and Flood Maps.