

## **Module 2 - Assemble Your House Flipping Team**

## The Importance of Networking

Although the title of this module is building your team, the single most important skill you'll need to learn in order to build your team as well as to grow your house flipping business is how to network.

So much of your success will hinge upon networking, to say the least. It will help you start to get some processes in place, generate your leads, and get people to know who you are, what you're doing and to get deals to come across your desk so that you can start analyzing things and then proceed to market them.

### Building Your Team

It's important to know what you know and just as important to know people who know.

What you'll find in this business is that so much of it is relationship building and getting to know who the players are in your area, who's a good real estate agent, and who are the people that are making things happen. So then you can start to create relationships with these people.

This is why building your team, having a good real estate investor, having a good money guy, and having a good contractor is so important. And creating relationships with people is the real key. It's not just about sitting behind a desk and shooting out emails and putting a buyers list together with a sellers list and hoping the money comes. It's more of getting out there and doing the legwork and networking to meet people who can help you achieve your goals.

This is why I'm a big proponent of networking. I believe networking is the best organic way of getting out there and meeting and greeting and really letting people know what you're doing. Just getting out there into the action, seeing who's doing what, and following the leaders and really copying what they are doing is a side benefit as well.

Having a mentor or a coach who has connections you can tap into is helpful for sure. All that being said, it's up to you to create those relationships and develop your style and just build upon your own network to get business done.

### REIAs

The first thing I recommend is getting out there and visiting and joining some of the local REIAs in your area. Most REIA meetings give you the ability to stand up and introduce yourself to the group

and usually allow you to give a 30-second pitch to tell everyone who you are. At first, you should just use that elevator speech to say who you are, or what your company is, and what you're looking for.

If you're looking to buy distressed properties in your area, then you should tell them that's what you're looking for as well. You may want to ask if there are any wholesalers in the room and at that point, you let them know that you're a buyer. In some cases, that might be the quick 15-second or 20-second introduction to what it is you do. It makes a good first step to getting your feet wet.

At most REIAs, after the introduction is done they usually have a presenter or a speaker to talk on some aspect of real estate investing. Typically, there is networking before and after as well.

One thing I always suggest is to get to the REIA meeting early. I always like to be the first one or two or three people in the room – that way I'm not walking in there when everyone's already formed their own group. Get in there early and meet people as they come in; that way you can engage them in conversation more easily.

There are other ways to get involved and be involved in the community and build your presence as well, but REIAs are by far the best groups for this. Focus at first in the biggest-impact groups that will give you the greatest return. If you can focus on a few things and do those things well, it will yield the greatest impact.

## Chambers of Commerce

Chambers of Commerce are something I've been involved with as well for networking. In my case, I got in early and became an Ambassador, then I was on the Board at my local Chamber. After a few years, I worked my way up to being Chairman. But that doesn't mean you need to do all those things by any stretch. But remember that when you get involved with your local Chamber of Commerce, they usually have monthly networking events you can attend, and these are where I've met many members of my current team and formed many business relationships.

It's nice to meet people outside of the real estate investing meetings to keep things well rounded. Many of these meetings are great places to meet would-be investors.

When you're at a Chamber meeting, you're likely meeting success-minded and oftentimes extremely successful business people who want to grow their business. When you tell them what you do, a simple statement like, *"We show people how to make money by investing in real estate,"* you're likely to pique their interest.

You don't ever want to talk interest rates or partnerships at this early stage. You can just tell them that's how you do it. Just strike up a conversation and be low-key.

You can also say, *“Well yeah, I’m a real estate investor. I buy distressed properties and I work with other people to help them realize a nice gain on their return.”*

There's no real pitch here. So there are a number of different ways you can start a conversation and you'll get all kinds of responses.

A business person might say back to you, *“Oh that’s pretty interesting. How does that work?”* Or they might say, *“Oh wow, things must be bad.”* In down markets, the response I get often is, *“Oh geez, too bad for you.”* In that case, I may say, *“No, actually my real estate business is doing very well right now because it’s a great time to buy.”*

The more of these kinds of conversations you have, the more likely that some of those people may turn into lenders for you just because you strike up a conversation casually.

If there's interest, you could say, *“Maybe we can get together sometime and meet outside of the meeting. Would it be all right if I give you a call and set something up?”*

In a nutshell, that’s how you work a Chamber meeting. No big sales pitch, just telling people what you do and being casual.

One other thing I always try to do is let people do more of the talking than I do. The more listening you do, believe it or not, the better it works. I always try to let the person talk 70-80% of the time and gather information on them; it also makes them feel important. And when the time is right, I tell them what I do. This really helps to make a connection with them.

## **Business Network International**

Business Network International (BNI) is basically a worldwide networking group started by Dr. Ivan Misner. Basically there’s the national BNI headquarters and then there are chapters all over the world. These are almost like an REIA, where you’ve got your national REIA and then you’ve got your local REIAs.

Business Network International is a group of business people who get together weekly and pass referrals. One of the nice things about it is they only allow one person per professional specialty, sometimes segmented by subcategories.

So, for instance, the real estate profession might be broken up into categories like residential and commercial. So if you have a residential real estate agent in your BNI chapter, that person will be the only one. I think I created the real estate investor category because as far as I know there wasn’t one. The same thing holds true if you have a plumber; one plumber gets in the group, or one attorney, although attorneys are also broken up into their different categories like personal injury, real estate, elder law, etc.

And what's nice about BNI is that you start to develop some pretty good relationships in your BNI chapter. In my BNI chapter, we have a good contractor network, as we have a real estate attorney, a plumber, an electrician, a builder, a septic guy, a flooring contractor, and a kitchen guy. I do a lot of business with all these guys as a part of my house flipping team.

Don't expect to walk in and have all these relationships happen overnight; remember that with relationship building, it's a marathon, not a sprint, and it takes time to cultivate the relationships. With all these groups, plant your seeds and things will grow from that. If you never plant the seeds, you'll never reap the harvest.

So as you can see, visibility is extremely important. Don't get me wrong: you don't have to go out there and join every REIA. But you should make the initial effort to visit as many of them as you can, then decide on which one you want to join. Simply join the one you feel you're going to get the best out of.

Initially, go visit a few of them a couple of times and when you see that you're starting to make some good connections, join that one. Later, if that REIA isn't working out and you're not getting what you thought you'd get, visit others, then feel free to join another one.

### **Tell Family and Friends**

If you haven't done so already, you want to tell everyone what it is you're now doing. This includes your family and friends, whoever you're doing business with or anyone that you just know.

You want to be excited about what you're doing, and you want to share it with as many people as you can. In fact, as soon as you get your email all set up and get your business cards done, send out some sort of blast email to announce your new venture to all your contacts. It doesn't have to be too detailed; you just want to tell everybody you're really excited about getting involved with real estate investing and buying properties.

Make sure to tell them exactly what you're doing and if anybody hears of or if anybody knows of a house that may be for sale that fits your criteria, to contact you. In doing this, you're just trying to let people out there know about what you're doing and to keep an eye out for distressed properties. Who knows; somebody in their sphere might know somebody that works with estate sales or may know of a short sale situation. Simply by letting people know, opportunities will come to you.

When you first start, you really want to start with notifying your family and friends, the people you know and people you've done business with in the past.

When you do the introductory email, some may respond back, some won't, but don't worry about it. However, from time to time, keep people updated as to what you're doing. This helps people close to you stay informed and potentially send you leads and help you launch your business.

## Early Steps, Elevator Pitches and Networking Tips

With regard to your elevator pitch, don't have this as a memorized statement. You should know it enough so that you can say it fluently but not like you're trying to memorize two or three sentences and you screw up in the middle of it.

Instead, just practice your speech in front of a mirror or do some simple role playing with friends or somebody you might know. Just say it and feel comfortable about it.

Your elevator pitch doesn't have to be exactly the same every time, but it should be something that you feel comfortable saying and something that rolls off your tongue easily enough. Have it so that you're not trying so hard that you have to memorize it so that it's stressing you out. Really just make it be short and sweet and really hit home quickly and easily.

Also when you're networking, don't spend too much time talking to one person. So if you're at an REIA event and you happen to be talking to an individual, after you strike up a good conversation, exchange business cards, and feel like you've talked long enough, how do you end the conversation?

You don't want to be rude and abrupt and just end the conversation, so what do you do? What you might do is find a way to edge yourself out of that conversation by excusing yourself because you need to meet and greet some other people.

In any networking event, if you can make three or four good contacts that night or maybe more, that's a good night in my opinion. Whatever you do, you don't want to be the guy that goes up to everyone in the whole room and asks for business cards without making any conversation at all, because that simply doesn't work.

Many other people suggest you collect as many business cards a night as possible. I don't believe in that philosophy. I believe far more in creating more quality conversation, collecting fewer business cards but having more of a quality network of people instead. Aim for making some more quality exchanges as opposed to just running around the room handing out or collecting cards. There are times when an event is run specifically for speed networking or some other form like it where the objective is to collect as many business cards and talk to as many people as possible. In this case this is OK because everyone understands the format.

When you meet someone and after you're done with that conversation with that person, first make a little note about what the conversation was about, where you met them, and a little something about them or the conversation that will jog your memory. When you go home and you enter their information into a database, you'll have a mental cue to remind you of the conversation. This makes follow-up with that individual far easier later.

When you have a really good conversation with someone, you may end it by saying, *“Hey, is it all right if I give you a call or follow up with an email to maybe get together?”* In so doing, you've created an action step and you let them know that you'll be following up with them. And you'll know how motivated they are too by their response to your question. If they say, *“Absolutely, yeah,”* then you'll want to jot that down on the card and make sure you follow up with them with the email.

## Building Your Team

So let's talk about team building. When I first started I didn't quite understand the concept of team building and what it meant. It was a little overwhelming to me because when you really start thinking about all the members of your team – real estate attorneys, real estate brokers, CPAs, insurance agents, contractors, etc. And it can be a little overwhelming but in actuality, it's not. You take it one step at a time and build one team member at a time.

What you've got to remember, and you'll probably hear me say this over and over again, is that it's a marathon, not a race. Relationships will evolve. You'll start off with some and end with them a short time later or even a little later down the road. It's always about improving the team, building upon the team, getting a team so that your team is out there working on your behalf; and by getting a good team you're going to find it's really going to make your life a lot easier and help you with real estate investing.

So for your house flipping team, we refer to it as a "power team" because there is a lot of power behind it when you start to see the players that are involved in helping you with your business. One of the things you don't want to do is just pick up a phone book and just start picking anybody and start doing business with them. You have to be selective.

Whether it's a referral from your networking group that you belong to or whether you are going on Craig's list or the even looking up in Google, you still want to do your due diligence. Now certainly a referral is a better place to start because if someone is giving you a referral, the first thing I would ask is, *"Have you done business with that person yourself? Would you tell me the experience? And who else do you know that did business with them?"*

So always do your due diligence and run your checks and balances of people you might be doing some business with. Now is the time to do the research and start the clock on different things and go out and meet with them. Maybe you have a phone conversation with the person and if the conversation goes well, you then set up an appointment and maybe meet them for coffee or lunch. And that way you can start making some educated decisions as to who you want on your team based on the information you gather.

### Attorney

One of the most important things is that you really want to make sure everyone on your team is investor-friendly. I say investor-friendly because there are a lot of attorneys out there, a lot of real estate brokers, a lot of CPAs, but really what you want to do is let them know ahead of time what your

goals are, what you're doing and find out if they work with other real estate investors and how they work with them.

And if they are, they say, *"Yeah, we work with other investors and it works out well and here are some references,"* then you're going to find that they understand your business more. And even better than that is if they're actively involved with investing in real estate themselves. Of course, that goes for all members of your team from your real estate agent all the way to your general contractor. On the other hand, that doesn't mean necessarily you have to discount them if they're not actively investing.

One of the first and most important people you want to get involved in your business is your real estate attorney. When it comes to attorneys, one thing I would say is never be intimidated and don't worry about asking a stupid question. There's no such thing as a stupid question when it comes to dealing with these professionals.

I can remember some of these fears when I first started investing. Truth be told, I never really had spoken to a real estate attorney before other than for my own home or some of these folks that appear to be much more educated than we are, but the thing is don't be intimidated. Just be down to earth and tell them what you're doing, and most attorneys will be able to relate to you and they'll be able to really help you out. And if they're not and you feel like they're not fitting in with your personality and what you want to do, then it's okay for you move onto the next one.

One thing I definitely don't recommend is getting legal advice at a cheap rate – especially ones from the Internet. Not to say that the attorneys who do business this way are bad attorneys, it's just that a lot of them could be just getting out of law school and this is a way for them to get some money to get started as they build their practices. If this is the case, chances are that they're not going to have a vested interest in you personally. I never use those services and I wouldn't recommend them.

So you do want to get a good real estate attorney on your side and not skimp when it comes to hiring this professional. Trying to save money on an attorney will cost you dearly in the end. You ideally want to hire someone who's definitely qualified, someone that has experience and can do real estate transactions, as well as understanding your business. Explain to them that you're buying and holding properties, you're buying and flipping and where you are in your career and what your goals are in the future.

A question to ask when you're trying to find a good attorney is for a referral. When you go to REIA meetings you can ask the real estate investors in the group who they use. First you go to the people that are doing real estate deals and ask them who their attorney is and if they are looking for more business. If they're looking for new business, then set up a consultation. Most attorneys will give you a free consultation. So talk to them, and again you'll find the ones that will fit and the ones that won't, and then you can narrow it down to your ideal candidate. You by no means need to stick with this person forever, but once you find somebody that you think you can do business with you move forward.

When you hire an attorney who sets up your LLC operating agreement, that doesn't necessarily mean that will be the same attorney who's going to do all your closings. In my case, I use different attorneys. In fact, I have two or three attorneys that we work with depending on who's busy and can handle things right away. I've built up three attorneys that we use for closings depending on where and what their specialties are. Maybe one's closer to their town or if there are any issues that might be town-related, then you want to try use a local attorney for that.

Chambers of Commerce are a good place to meet business professionals – and this includes attorneys. Business Network International (BNI) events and even doing a quick local Google search to see who comes up in your local area are other good ways to find attorneys.

The bottom line is there are many ways to find an attorney. And in my opinion, references and getting referrals are usually two of the better ways to do that.

Another question you want to ask when you do meet with your attorney is to inquire about the best structure you can put your business under. There are a lot of different plans out there.

There are many choices of business entities and you can do an LLC, an S Corporation, a C Corporation, limited partnership, trust, sole proprietors, and few others. In the beginning, you don't need to worry about all that stuff – you just want to get the basic setup, which in most cases is an LLC.

## **CPAs**

Another important team member is your CPA – your certified public accountant. Although you may not have any properties under contract right now, getting a good CPA is something you want to start to look at and do some research on. When you are networking, these are great opportunities to go out and look for and meet potential members of your team so that you are fully prepared when you do start buying properties.

Hiring the right CPA can save you a lot of money. Hiring the wrong one will cost a lot of money.

What you'll soon find is there are many different opinions and many different views of the same tax laws from different CPAs. You can ask ten CPAs the same tax question, and you might get ten different answers. So you really want to, in my opinion, talk to a CPA who works with real estate investors and is in a better position to understand your business. When you talk with that person, find out how they would handle the proceeds from a sale of a property or a long-term hold, how they would depreciate things, and how would they work with you. Those kinds of questions are extremely important and I suggest you ask them those exact things.

At the end of the day, you really want to see confidence in a CPA when they're answering those questions and that they understand your business and you feel confident that they are going to work hard on your behalf.

When it comes to CPAs, it's all about the legal angle of how your business operates. No one's saying that your CPA should be doing anything illegal for you. But it is the United States tax code, and it's ridiculous the amount of pages that are in it, so you need an accountant to decipher all of these thousands of pages. When you think about an accountant, it's sort of like the building code, those things are open for interpretation – and real estate law could have a different meaning behind it depending on which CPA you speak with. The idea here is that your CPA should be working for you, trying at all times to keep your taxes as low as possible within the legal limits of the law. At the same time, they should be working for you and not for the government. So once again, just get references and meet up.

A question to ask a CPA would be how they work with real estate investors to maximize tax savings. You may want to ask them, *"How do you handle long-term holds with short-term flips?"* This is probably one of the most important questions that you ask them in your talks. Ask for referrals from real estate investors they currently do business with. Then take the time to call some of these folks and ask them how their relationship has been with the CPA you're talking with and find out how proactive they are from a real estate investment standpoint.

You also want to find out if the CPA also offers bookkeeping services and maybe even works with QuickBooks. Relatively speaking, a CPA is going to be more expensive per hour than a bookkeeper. You don't want to be paying your CPA if you need some assistance in entering data or doing some of your bookkeeping work. So obviously, ask if they have a bookkeeper on staff or someone that can assist you with maybe setting up your accounts on QuickBooks. Sometimes if it's just a one-person CPA they may have teams of people they work with that they can refer you to. So just be open-minded when it comes to that.

The really big question here is will they back up their strategies in an audit? If you ever did get an IRS audit notice, you want to make sure that your CPA is authorized to stand in for you and really back up the tax returns they did for you. You don't want to be alone if that ever happens, and you want to make sure that your CPA will be there for you if it does. It's a remote possibility, but it does happen.

You'll also want to know if your CPA will also talk with your attorney. I found this to be very important because it's always good to have a relationship where your attorney and your CPA can talk with one another – this is especially true in the beginning when you're setting up your structure. I didn't do this early in my real estate investing career and found out my CPA and real estate attorney had differences of opinions in strategies. Do your homework and get your CPA and your lawyer talking right off the bat.

## **Insurance Agents**

Insurance agents are another important part of your team. Insurance is essential and very important from a liability standpoint, especially when protecting your assets. When you're networking, you want to keep a lookout for creating a relationship with insurance agents. As is the case with the CPA

and the attorney, you also want to make sure the insurance agent understands the real estate investment business. He needs to realize that your business is all about keeping your costs down, but at the same time not exposing yourself to too much in the wake of liability lawsuits and so forth.

So you want to handle your insurance basically on how you set up your business structure. After you get your LLC and your operating agreement set up and you start working with your CPA, you just want to share that with your insurance agent. This is important so they know that you're not insuring things under your name, but insuring under the name of your business. A good insurance agent will give you the best advice on how to set things up from an insurance standpoint as well. As with any other professional on your power team, you definitely want to talk to an insurance agent who is investor-friendly.

You will need different types of insurances. Builders risk is for the time when you're buying property and you don't have it rented and you are looking to rehab it; in that case, you want to have a good builder's risk policy in place. This will help protect the property in case of fire or some other incident that could destroy the property – as long as you have builders risk, you would be covered to recoup the loss on that. You should also get Liability insurance to cover you against any accidents and potential lawsuits arising from them.

In certain areas you'll need flood insurance and that's an important type of insurance as well. Flood insurance will be required by most banks if your property sits in a floodplain. So if you're buying a property near a river or other body of water, make sure you check flood maps to see if your property resides in a floodplain. Flood insurance is a cost of doing business in some geographic areas. So when you're doing your estimates and you're figuring out what your expenses are going to be, make sure you think about insurance expenses as well. This is important, so check with your insurance agent to know for sure if you are in flood zone.

One of the last kinds of insurance is title insurance. And although many investors will look at this as a frivolous expense, it is well worth the money should things go wrong. I see it all the time – there are always going to be properties that have ever-so-slight title flaws. If for some reason there is a problem with the title of the property you're going to sell, your title insurance will cover you.

When it comes to title, the title may be okay when you buy – but down the road something could creep up when you go to sell it. Another attorney might find something that your attorney didn't or the closing attorney may find something as well. So always, always, always buy title insurance.

I had a title claim on my second property I purchased when I was first starting out. In the beginning I was always like, *"Oh, I hate paying for that title insurance. It seems ridiculous and just another insurance cost."* But after having to put a claim in and getting it resolved with a title insurance claim, I have never looked back and always buy title insurance. Always, always, always buy title insurance.

Another question you may want to ask your insurance agent will be if you can combine new policies with one agent for a saving. It's good to remind your insurance agent that you're an investor and you're all about saving money – but you don't want insurance policies that aren't going to shortchange you either. So you really need to have them explain to you what the coverage's are when you do start doing business with your agent. Unfortunately, some insurance agencies write their policies that don't really cover you for anything. So you always want to make sure that you're saving money but not at the expense of not collecting enough insurance money if you have a big disaster.

One thing that we started doing recently was crafting our insurance policies with larger deductibles. We're buying a lot of properties now, and we don't feel like we need \$500 deductibles. The chances of you filing a claim on a property that you own for six months or less is remote. You can save money by having a higher deductible, as it lowers your premium.

Some deductibles can be as high as \$5,000 and in policies like these, you'll see a significant savings in your premium. But you do want to realize that if you have a small claim and it's \$3,000 and you have a \$5,000 deductible, that's just the cost of doing business. In that case you're going to have to just bite the bullet and spend the money to fix the issue.

Then there's always the question of what value you should put on the insured property. You could decide that your policy should be replacement value. Or in some cases, you may want to deduct the land out of that and just have the amount of money to rebuild.

These are some of the questions you want to get in and get to understand. You'll want to see if the renter's property is covered in the insurance as well. With properties that we rent, we recommend to anyone who is renting that they get their own insurance because under our insurance policy, their personal property is not covered. Remind your tenants that renters insurance is really cheap and you should always recommend it to anyone who's renting your properties and in many cases you may want to require it in your lease.

## **Contractors**

Needless to say, your contractor is a very, very important part of your team. This is because contractors are going to be one of your biggest expenses when it comes to renovating a property. Your real estate commissions are big. Your closing costs are big. But nothing is going to be as big as the expense for your renovation. Your contractor is really important and huge part of your power team, so it is vitally important that you get the right contractor or in many cases, contractors.

There are a couple of different ways you can go about finding a contractor. The process is really going to depend on your style and the time you have to run a rehab project. In some cases, you can hire a general contractor, and that general contractor is like you're hiring one company. In that case, that one company will hire and run the entire project.

From a time standpoint, having a contractor manage everything is the ideal scenario. This is especially true if you're working another job 40 hours a week; in that case, I would always recommend you go the general contractor route. If you're working a full-time job, you're just not going to have time to run your project efficiently and deal with all the subcontractors.

A general contractor is not only going to be doing all the carpentry repairs like framing or hanging doors or installing kitchens, but they're also going to be subbing out to what's known as subcontractors. These are people that work underneath the contractor such as plumbers, electricians, roofing guys, insulation crews, sheetrock crews, painters, and floor guys. Suffice to say, there's a lot that goes into running a project and if you have a significant renovation, you're better off dealing with a general contractor.

Now in the beginning I used to do the general contracting myself. In fact, I had my contractor supervisor's license, so I used to buy property and I would hire the plumber, hire the electrician, hire all the trades I needed and I would have to coordinate the schedules.

If the electrician didn't show up, I'd be the guy that would have to either get a new electrician in or call all the other subs and push their dates off because one tradesman didn't show up. Dealing with these kinds of things can really create havoc on your project if you don't know what you're doing. So you want to look at both sides of this. In the beginning before you do your first flip, it doesn't hurt to talk to a plumber, talk to an electrician, talk to a bunch of carpenters.

Maybe you want to start off by calling several general contractors and interviewing them and telling them about your project and what you're doing and see how they work with investors. If they don't work with investors and they're doing just high-end retail work, it's probably not going to work for you because a project that may be \$50,000 could be \$75,000 to them. And as a real estate investor, one of the things you have to make sure is you have to keep the numbers in check.

Whichever contractor you hire, you want to be sure to get all their information. You definitely want to get contracts signed and not leave anything to chance. If you're writing them checks, get W-9s from them. Get copies of their insurance. When you're first starting out – I don't recommend that you start out by hiring people that work under the table or paying them in cash. You should also never hire subcontractors who are not licensed. Absolutely don't go that route. It will cause you a lot of problems and a lot of aggravation in the end. Depending on what part of the country you are in some areas don't require licensing so it may not apply for you. However, in either case a license does not guarantee they are experts at their trade.

So a question to ask a contractor is *"Have you worked with other real estate investors like me?"* If they tell you that they have not, that doesn't mean you don't want to hire them. What it means is you need to explain to them your model, and what you are doing, and if the contractor is relatively new in the business and he's looking for more business this could be an opportunity to train him in your system and give him a steady stream of work. Oftentimes that's better than working with someone who's been

doing it for twenty-five years because they get stuck in their old ways and they don't want to hear your way of doing things. They only have one way; it's their way and that's okay. If you find this is the case, then move on to the next general contractor because there are lots of them out there.

When you're interviewing general contractors, you'll want to know if their subcontractors are competitive in their pricing so you can keep within your budget. There's a fine line when you're talking to them. You don't want to insult them, but at the same time you don't want to say their subcontractors are overpriced. Let them tell you as much about their business as possible. Then you want to ask them questions about how they mark up their subcontractors' work and how they make their money.

Pricing with contractors can get complicated. Let me give you an example. Let's say we were doing the job and the general contractor said the plumbing would cost \$10,000 and he was then marking that up 10% for his take and now the plumbing is \$11,000, which is perfectly normal. It's not the 10% markup that you should have a problem with. The problem would be if you had another plumber who was quoting the same job for \$7000. In a case like this, this is where you have to talk to your GCs about the competitiveness of their subcontractors' pricing. This is where I would talk to them about how if they do the job well, I'll be giving you lots of work in the future. It's hard to say exactly how you should approach this subject, but keep this in mind at all times. You just need to get a feel for talking to them in that way. If they're working for other investors, and they're willing to work with you, then chances are they'll start to get it.

You also may want to ask them if they employ strategies with their suppliers. For example, if you have a contractor and he says he buys all his supplies from Home Depot or Lowe's when his guys need it, chances are he has no discount pricing from his suppliers in place.

Another contractor might say, *"We have lines of credit with all the big suppliers in town and we price our supplies out to multiple bidders."* In this case, let's say your contractor needs \$30,000 worth of material on your job and they have put this out to bid to two or three lumber yards. If they employ this kind of strategy, this tells you that they're trying to get the best price possible on materials. This allows you make more money because they should be able to pass the savings on to you. They may also already have discounted volume pricing in place.

Remember that these are absolutely perfect valid questions to ask your contractor. You're not prying on how they're running their business – instead you're just gathering information to see if they qualify for your standards.

Another important question to ask is if they have insurance. You don't want to hire anyone that doesn't have insurance; that's very important. You want to make sure that they have ample coverage. Do they have a contractor's license? You know I laugh at that one because you would think that's a given, but don't assume anything. You definitely want to make sure they have their contractor's license and it's up to date and they're doing everything with their license legally.

Another good question to ask is how long would it take them to renovate a property? Giving them examples may help come to this answer sooner. You might say, *“Hey, I just bought this house.”* You don’t say you just bought a house but say you’re looking at a house. It’s around 1,500 square feet. In my opinion it looks like it needs a new roof, new windows, the siding’s good, maybe it’s not – and it also needs new doors. You could say it doesn’t appear that it needs to be gutted but it looks like it might just need new flooring, new paint. Also, the electrical needs to be updated, and the bathroom needs to be gutted as well as the kitchen. Then you pose a hypothetical question to the: *“How long would it take you to complete a project like that?”*

You could give them the exact same scenario and square footage, and ask them how long it would take to complete that job if you had to gut everything down to studs. See what they say and how they respond.

In asking questions, you’re going to very quickly get a feel for how long an average project might take. Now if it’s a 1,500 square foot home, even if it’s a complete gut job, I can tell you that project really shouldn’t take more than 60 days to complete. I don’t think we’ve done any projects that have projected longer than that; however, we did go over the projected time frame. We constantly seek to improve the process. Remember that time is money. We have done some projects that have been held up because of other issues as well like conservation, historical, permitting and things like that, but for the most part if it’s just a basic job and if they can start day one, the majority of projects shouldn’t really take more than 45 days and the longer ones really shouldn’t take more than 60 and 90 days.

So if you get a contractor that says, *“Oh yeah, that job will take me 6 to 9 months”* – then that is obviously not your guy. There really shouldn’t be anything that should take that long unless you’re getting into maybe a 5,000 square feet antique restoration, which can be nine months and longer depending on the details of the restoration.

So you really want to try to see who has the ability to get through your projects quickly because when you’re flipping houses, time is money. And keep in mind that you are paying interest on the money you borrowed to get these projects done as well. Break down what you are paying for interest daily and that will be motivation for you get it done.

So one other very important question you want to ask is what happens if they run into something that’s not part of the scope of work that has been created. Let me give you an example. Let’s say they provide you a quote to do a renovation to gut the bathroom, put in a new shower, install a new vanity, get a new toilet, lay down a new floor, and then when they are doing all this, they opened up the wall and found out that the whole exterior of the wall was completely rotted out from termites and water damage.

Now if that’s not in the scope of work, it’s going to be an additional charge. So you want to ask them what happens if something like that happens. And you just want to make sure that they give you a good answer in saying, *“Well if we come across something like that we’re going to be fair with you.”*

*We're not going to gouge you on the price.*" Especially when you're new, you just don't want to be taken advantage of. Because if it's simply just reframing it, it's a couple hundred bucks then you have them go ahead and do it. If it's anything significant and he gives you a price that you feel is really high, you need to discuss it, you need to understand it and have him explain it to you so you're not getting all these extra charges that take you out of your original budget.

So you can apply these same questions to subcontractors if you decide to run the project yourself.

## The Real Estate Agent

Now I think I just said contractors are one of the most important parts of this whole equation. Well, they certainly can be a big part of whether you're going to make money on a project or not. But let's put it this way: without a good real estate agent and someone selling your deals it might not matter about how you're going to contract it. So definitely an important part of your power team is finding a good real estate agent to help you in finding deals along with yourself using your own techniques. It's definitely one that you need to create. It doesn't actually just mean one agent. You might have a relationship with two or three or what have you. You want an agent with experience or train one that is new and motivated to learn and work with you.

Now there are two ways to look at this. And I was taught this many, many, many years ago before I was ever in real estate. It's a law I've been applying previously my entire life. Experience really can mean a lot and it can mean nothing. And what I mean by that is what good is it if someone is experienced and they have 30 years under their belt but they've been doing it wrong all those years? So it doesn't actually make someone good at what they do just because they have experience. So always keep that in mind. If someone says *"I've been doing this for 30 years,"* then yes they may have been doing it for a long time but it doesn't necessarily mean that they're good at what they do.

So with that being said, someone who has been a real estate agent for just a year or two may be hungry for business and willing to work their butt off for you. You can train and coach them, you can pull them into your corner, and you can get them to work with you because you're going to end up doing business with them. So you might seek out a new agent who is aggressive and wants to build up a business and wants to work with investors. This is the kind of real estate agent who doesn't mind putting in ten offers to only get one property and never complains about it. In a case like this, a seasoned experienced real estate agent might think, *"Oh I don't like short sales. I don't like distressed properties. They've got too many headaches."*

When looking for a real estate agent, you may want to seek out a short sale agent. A short sale is when someone sells their house for less than what they owe the bank on the mortgage. In most cases, short sale agents are real estate agents that understand the short sale process, aren't afraid to work with short sales, and they don't mess them up. They do these kinds of properties day in day out and

they might be able to bring to you a property that might not be good for an end-user but great for an investor. And the good thing about getting involved with someone who understands the process is that if you're working with someone who knows what they're doing, the process can be far smoother than someone who's never done it before. Short sales can be a nightmare and they can take a long, long time if you don't have the right agent. To be a good short sale agent, you got to understand the short sale process.

You may want to seek out REO (real estate owned) agents. These are agents that specialize in selling bank foreclosures if that is something you're looking to buy. Typically these are properties the bank bought back at their own auction through the foreclosure process because no one made the minimum bid they set forth. There are real estate agents that work for real estate brokers that have made great relationships with banks and service providers to get these REO contracts. What that means to you is they will have many bank owned properties (REO) for sale. The idea is to create a solid relationship with them so you have the ability to buy these properties as well. Sometimes you may be able to know ahead of time before it is listed on the MLS so you will have an advantage to run your numbers and be ready to make the offer.

You want to make sure you are in a position to act on any deals they bring your way because if you're not they be thinking you're wasting their time and you won't see too many more deals come your way because you can't fulfill your end of the deal. That is why going to REIA and meet-ups and networking with other investors is important. If you can't pull the trigger on a deal, then you send it to another investor in your contacts. Bottom line is just be honest and transparent with your agent along with others so there are no surprises.

One strategy you may want to employ is if you have an agent looking for properties for you is to promise them the listing as well if you get the property. This will make them work harder for you knowing they will get the commission on the other end as well. If you make this offer just make sure you follow through with what you promise. The last thing you want to do is list the property with someone else after you made a promise and especially if they brought you the deal. Integrity is everything, so keep your promises.

## Some Questions to Ask

- 1) Do you work with other Real Estate Investors?
- 2) Do you know how to perform short sales? Are you short sale certified?
- 3) Do you get REO listings from banks? Can I view these before they hit MLS?
- 4) Would you like to list my properties I buy from you?
- 5) Are you interested in working with others I may bring your way?
- 6) What territories do you specialize in?
- 7) Can you put me on your automated search and have leads sent to my email?
- 8) Can you do the Comps (Real Estate Compilations) for me?