Module 3: Find a House to Flip

Lead-Generation Basics

Simply put, finding a house to flip is nothing more than just putting different systems in place to get leads.

In this case here, we are talking about properties to buy, renovate, and then flip for profit. There are many different ways to do that. But the bottom line is not all of them are going to work. In any business, whether you're in real estate or anything for that matter, not all advertising, not all marketing, not all networking works. The idea is for you to be able to measure everything that you're doing, see where the results are coming from, and then focus your efforts on scaling those strategies that do work at that time. It's finding your strengths and focusing on those, seeing what's working and what's not, and moving forward with the ones that work and discarding those that don't.

For example, cold calling is one way to get leads for houses to flip. Cold calling is when you pick up the phone and call someone cold. Some people hate cold calling, like me. So I don't do it myself – now I have someone that can do it for me. If you have some scale and you have people on your team or you can hire an assistant, then you don't have to do it and you can outsource that task to someone else who has the skillset.

In some cases, this could be a family member or friend or someone that's interested and you can work with them and make it worth their while to do it. Like we said in Module 2, always be networking and looking out for people to help you in your business. Real Estate Investment Association meetings, Chambers of Commerce, and BNI chapters are great places to meet people who can potentially help you in your business.

So let's get into how you find houses to flip and the various sources you can use to get those leads in the door.

Real Estate Agents

One of the things that I found that has worked very well for me to find houses to flip is working with real estate agents. This could be a good and bad thing in the sense that not all agents are good to work with. Some are great to work with and others are not as competent. And it all comes down to the team-building session that we talked about – interviewing real estate agents, seeing who's going to work well with you, and who's not.

And sometimes you think someone's going to work well with you, and it just doesn't turn out that way. So it's important that you monitor that, and sometimes you've just got to change agents or just not work with that particular one anymore. Never forget that agents are in business too. They want to make a lot of money and time is money to them. So your goal when you're talking with them is educating them and making them understand your business model so they don't feel like you're wasting their time.

Much of this is getting into that real estate mindset so they know what you're all about and you know what they're all about. So if you continue to work with them, you'll need to explain to them your business model and give them the demographics of what you're looking for, as well as the geographic areas that you want to buy houses. If you can build these relationships effectively, then the leads will start coming in through real estate agents.

Keep in mind that for agents that may not understand your business, you shouldn't automatically exclude them.

You should also consider new real estate agents who you've identified through your networking. In those interactions, you've identified that they have good business skills or they're highly motivated to make money. When you meet these types, talk to them early on about what you do and how you're going to be approaching your deals. Explain that you may have to put 10 offers in to get one deal, and that they will have to show you a lot of properties. When you tell them this, you'll be able to size them up and see how motivated they are.

If they haven't worked with investors in the past and you're their first, yet they're motivated and they want to work with you, now you have a team member that's going to bring any deal that he or she finds first to you. You're not at the end of the line like with some of the other seasoned agents who work with other investors. Of course, it's going to take some time for you to be on the in with them as they learn about you and size you up. So look at that as an opportunity.

Now the thing you will have to do is put more time and effort in with these new agents because they don't understand your business, and you need to explain it to them. Remember that as with any member of your house-flipping team, it's all about relationship building. If they don't get it and they're just not interested, then you just thank them for their time and you move on.

Properties listed in MLS are where most of your agents are going to source your deals. Sometimes they get deals outside of MLS as well. But to get the best deals, you shouldn't just wait around for things to be listed at the correct price. Sometimes properties are overpriced, and the real estate agents will understand that. However, if the real estate agent has a direct link with the asset managers from a bank and they're the REO broker, they're going to know ahead of anyone else when deals come available. So if a property is listed at $150,000 – and for an investor it's only worth $100,000 – a good broker will inherently understand this. In that case, don't waste your time; don't put your offer in because the banks aren't going to accept anything that's too far out from what they're expecting to sell for.

Real estate agents have worked extremely well for me. Many other investors would disagree and might tell you that you never want to buy anything on MLS because everybody knows about it.

Your competition is going to be a little bit higher with properties listed on MLS. But this is all just a part of the strategy and one way of getting deals; it's certainly not the only one.

Wholesalers

A wholesaler is someone who puts property (normally distressed property) under contract and assigns or resells the property to another investor. Although many house flippers may look at wholesalers as some form of competition, I disagree. It's super important to have a number of wholesalers on your house flipping power team. Of course, there are wholesalers and seasoned wholesalers. And the two of them approach wholesaling very differently.

It's sort of like real estate agents: there are new real estate agents and there are seasoned real estate agents. It's the same thing with wholesalers.

Seasoned wholesalers who have been doing this for a while likely understand the investment mentality. They know the 70% formula, which we will get into in later modules. They understand what price point you as an investor want to buy property for. And when they find a deal, the really good ones will shoot it over to you as soon as it happens.

They're already going to have the comps, and be fully aware of what the after-repair value really is. They're going to know who owns the house and that the property owner is going to sell for $100,000. They may give you reasons for this. A good wholesaler will know that everything else on the market is selling for $205,000 – 210,000. They'll know it needs $40,000 - $50,000 in repairs, so they're going to know your strike price is $90,000 - $100,000. And they're going to lock that up below that because their wholesale fee is going to be built in. And whether they're making $1000 or $10,000, it's irrelevant to you – provided you get it at the price that fits in your model.

If you work with wholesalers who have all this kind of information and even as a bonus that you personally like to work with them, they're going to be easy to work with and bring you lots of deals.

Let's say in your networking you go to an REIA meeting and you stand up and you say to the group: *"I'm a cash buyer and we're looking for deals. How many wholesalers are out there?"* In most of these meetings, you might see half a dozen to 20 hands going up depending on how many people are in the room or maybe more. Those are all people that you want to collect their business cards from. Of course, you can meet them one by one, but I highly suggest you do this in your networking meetings when you get your chance to speak.

After doing something like this, they should be coming up to you and collecting your business card. And if they don't, then they're not a very serious wholesaler. But in some cases, they may say they're a wholesaler but when I talk to them, I quickly realize that they just may be new or they simply may be afraid. They also might be sizing you up and think that you are a big investor who does hundreds of deals and they may not feel that they're ready to talk to somebody like you quite yet. So just by speaking up at your networking meetings, you can easily gauge which wholesalers are new and which ones are seasoned.

In many cases, a new wholesaler just may be someone who bought a course or is getting trained and is in the early stages of building their business. If this is the case, just simply exchange business cards and set up a meeting for after the meet-up. Meet them at a local coffee shop or at your office or wherever. Explain to them what you're doing, how you're doing it and assess them, and if they need assistance, offer your assistance as well.

If you meet with them personally, chances are very good that they're going to a share their deals with you before anyone else because you took an interest in them. So even though it may not seem this way, putting time in with the new guys in the business will help you in the long run. By no means will this be instant gratification. Some of these meetings may just be a waste of time, but others may turn into very good assets for you and could even potentially turn into partnerships.

Sometimes you'll work with these guys and they may not even have the property under agreement but you may be able to help them by taking over the negotiations, and if you get the deal you can work out a fee to pay them for the lead. This is known as a bird dog fee.

This recently happened to us with a property we put under agreement because of a wholesaler who didn't know quite yet what he was doing. He came to us at an REIA and had a property he said was under contract for $10,000. I had to explain to him that at that price, the deal just wasn't going to work out. However, if we could lock the deal up for him we would pay him a few thousand dollars.

He had offered it at $10,000 not because he was trying to be greedy, but because he simply didn't really know what he was doing. You can't blame a guy for trying. But after negotiating with him and explaining to him how the process is actually done, we had to participate in the closing the deal for him. We realized early on that he didn't necessarily have it under contract, so it ended up being more of a bird dog fee than a true wholesale deal. So just because a wholesaler's brand-new, don't automatically discount them – even when they are new they can be great sources for really good house flips.

Most wholesalers use bandit signs to get their deals. A funny story is that when I first started, I used to think bandit signs were my competition. I wanted to rip them all down in my neighborhood when I saw them when I first started. Then one day I had the bright idea to call some of them to really see what they were all about.

And what I quickly found out is most of those bandit signs that are hung up on the telephone poles or street corners were wholesalers and are not other house flippers. They weren't the actual buyers, and they weren't the investors either. These were guys that were getting leads from people who saw the signs and were trying to get rid of their property quickly.

So I started calling bandit signs and started creating some relationships with them. I simply told them, *"Hey I am an investor. I am the guy who will buy these properties from you."* The ones I called put me on their buyers list, and although I never actually got any new deals from this approach, I did get a fair number of calls from them – or at least from the serious ones.

So how do you locate wholesalers? Go to the REIA meetings and stand up and tell the room who you are and what you're looking for. Most REIA meetings are great this way and that they will allow you 30 seconds to give your pitch. Another way to find wholesalers is by simply doing a Google search. As simple as it sounds, go to Google, put in your town or area, put in "wholesaling," "sell my house," or "buy my house," and see what pops up. Anyone who comes up in the organic or the ad listings is someone for you to potentially call.

Short Sale Specialists

A short sale is a sale in which the proceeds from selling the property will fall short of the balance of debts secured by liens against the property, and the property owner cannot afford to repay the liens' full amounts. The lien holders agree to release their lien on the real estate and accept less than the amount owed on the debt. To many new investors, this sounds very complicated but in actuality it is not.

Truth be told, in the past I kind of stayed away from short sales because they were just far too time-consuming. I just heard far too many horror stories of deals taking way too long to be consummated when they were short sales. Back then, there was an abundance of REO properties out there and other ways for me to find deals so I didn't really have to worry about short sales. Then inventory started drying up a little bit, so we started looking at some short sales.

At that point, the government had started to regulate the short sale process so it's more streamlined and the banks have to respond more quickly. Today, we're finding short sales are happening more quickly and have changed my ways. When we can, we are buying short sales from brokers that understand and know how to run the short sale process. Before we do business, we always qualify them and make sure that they understand the whole process to make sure they get it right and ensure that they work with short sale attorneys to keep the process flowing smoothly. The last thing you ever want to do is to spend months and months and find out they were messing everything up and then you lose out on the deal.

In short, a short sale is nothing more than a homeowner that is upside down on their mortgage. For instance, if their mortgage is $300,000 but their house is only worth $200,000, the bankers allow and agree for them to sell it short of what their mortgage is. This is where investors like us come in and are able to purchase properties at a deeply discounted price. Even though short sales may appear more attractive because you can get them at discounted rates, we still apply the 70% rule on all short sale homes we purchase. If they can't meet those numbers then we wait until the numbers do work.

You'll find that many listing brokers who have short sales are running into trouble and messing things up for you. When we find these situations, we typically will recommend them to a short sale specialist in the industry who will take over the short sale. In this case, the listing agent will still receive a commission, but not as much as they would have if they were the primary broker. However, they may make more money because the deal gets facilitated more quickly and efficiently when it's done by someone who knows what they're doing.

Attorneys

Another lead source is through attorneys. If you have an existing good relationship with an attorney – and you'll need a good real estate one on your house flipping team anyway – this is a technique you can certainly try out. You can also choose to do mailings to them or you may want to get on the phone and call them.

I have had two or three deals done through attorneys, and they all worked out to be good deals. The success of finding properties to purchase through attorneys largely depends on whether the deal is a good one for an investor. There are times when I have said no to deals because the price was too high, and I suggested that they list it with a broker and try to maximize their price.

When you talk to attorneys when they're dealing with a potential estate deal, you really need to find out what the primary motivation of the sellers is. Some questions you may want to ask are: Are they out-of-state owners? Was it left to them and they just want to move out quickly? Or are there several family members involved?

So I really get the attorney to really dig in deep and see where these people are at. You just really never know what the situation is behind the scenes. One brother might want to sell it cheap while the other one might want to hang on and try to sell it for as much as they can on the open market. So asking a lot of questions really gets you to where they're at and will help you to determine if it's something you want to get involved with.

If the deal is through probate then they have to get the right to sell and your attorneys will have to work through that aspect of the deal. Regardless, I found in these cases that working with attorneys does take a fair bit of patience but the rewards can be great when your patience pays off.

Attorneys deal with all kinds of different situations: divorces, estate deals, bankruptcies, and the like. And not every type of attorney you meet is going to have the kind of property you want to buy and at a price that you want to buy as an investor. What you might want to say to an attorney is, *"Listen, I'm an investor and you may not like the price I want to pay. Let me explain to you why we need to do it at this price."* And you go into the amount of money you're going to spend renovating it and you also need to sell it more quickly on the open market as you can't hang on to properties for 90 days or more. Just get them to understand that your sale price is going to be lower than everybody else's. Using this strategy can sometimes work.

The idea is not to insult the sellers or submit lowball offers. The idea is simply explain to them what your option is to list it on MLS with a listing broker. You just try to get the most money you can out of it as quickly as you can, and if it doesn't work out, then no harm, no foul.

Other Investors

This is one we're using more and more these days as we become better known in our community as well as in our region. This one is particularly interesting because it is certainly a means of finding deals that I probably never would've thought of a year or so ago. When you think about it – it's completely counterintuitive – why would you ever find a deal from someone who in essence is your competition?

This may be a more advanced strategy and for people who have a little bit more experience in the market but nonetheless it's a very good way to find houses to flip.

The first deal I got from another investor was simply because I've been going to my local REIA meetings for a number of years and because of that I've built up a little bit of credibility. The first deal I get through this method just kind of happened by accident.

In some cases, investors will put multiple offers out there and then for whatever reason, they may get two or three under contract all at the same time. Depending on the scale of their business, they may not be able to handle more than one at any given moment. Maybe they can't get the money they need to finance, the bank won't let them borrow, there could be some unforeseen title issues, and the list goes on.

Maybe they just can't handle all three projects at the same time. It doesn't really matter what the reason is. The point is that other investors may sometimes get in over their heads and want to unload properties they have under contract. In my case, I treat every other investor in my market as a potential contact and not necessarily a potential competitor, and I suggest you do the same. Some of these people may be partners for you at a later date, or they just may be other like-minded individuals who you can share ideas with and become friendly with. Chances are in your market, the real estate investing circle is not an overly large one, so treat everyone as a potential friend and or partner – that is, unless they prove otherwise to you.

In this most recent deal for us, this was another investor who we had met through an REIA meeting. We weren't particularly close, but we knew each other just enough so that he trusted me and he saw me doing a fair amount of business in my area. He had two deals going on at the same time, and thought he was going to be to close on both of them. On one of the deals, the bank saw that this other deal was going on, and they felt he was going to be overleveraged.

In his case, the first sale was a lease option and the bank was raising concerns. So he called me up and told me that he had one deal going and another one he needed to close on but if he didn't close on the second one he would lose his deposit. He offered me the deal in exchange for his deposit money back.

It was a week before Christmas, and I was just getting ready to shut it down and take the whole week off. I remember I told my wife that I don't care how good a deal comes along while we are away, I wouldn't take it. Famous last words, of course!

But in this business when a good deal comes along you have to take it and break your own rules! I called him back and I told him that I would take a look. I drove to the property, and within 20 minutes I knew it was a good deal. He had very specific numbers on the renovations, and I evaluated all his numbers and he was right on the button. The comps he had run were right on as well. So at that point, with Christmas looming, the kicker was that I had to close within a week and a half or two weeks. It was crazy. Week off for Christmas – forget about it!

But the bottom line is it was a great deal, and if I really wanted it I had to act on it quickly. I called him immediately and told them I would take it off his hands. To this day, we have a very good relationship, and since he's a real estate agent he's actually brought me other deals since then – none of which turned into actual sales but the relationship still exists to this day.

Keep Your Friends Close and Your Enemies Closer

It is true: keep your friends close but your enemies closer. Although I like to treat everyone and anyone as a potential friend and partner, there are some people in this business that you're just not going to care for. Maybe you might've heard some things about them, and sometimes these folks are players and they get lots of deals and are very successful in their own right.

At the end of the day, if a deal comes your way through one of these people and it makes financial sense and you can make money with them, by all means go for it. That is not a blanket statement; you want to look at every deal individually and size it up and understand it. In the case of someone with a less-than-stellar reputation in the real estate community, I would err on the side of caution and make sure you rip the deal apart more and understand it as well as you possibly can and perhaps better than any other deal you've analyzed.

Obviously, you'll need your attorney to do the title and make sure the title is marketable and there is nothing inherently wrong with the deal as presented.

Other Lead-Generation Sources

When it comes to lead generation in finding properties, there are tons of them. There's direct mail, postcards, radio advertising, TV, billboards, tradeshows, Google PPC, and Facebook advertising.

The list of potential outlets to buy media from is staggering. Although you want direct responses from your outreach, there is an element of brand building when you choose to advertise. When you're just starting out, you don't really need to worry about too much of this stuff, but it's something to consider as you grow and become more experienced.

Always think of ways to get the word out on what you're doing as well. Let's say you're having coffee at a coffee shop or having breakfast – and a lot of breakfast and lunch places have those boards on the wall. Just take out business card and stick it there. You never know.

One of the deals we just wrapped up was from a wholesaler who had placed his business card on a 7-Eleven store bulletin board and somebody had called him on it. In his case he was a brand-new wholesaler and had barely done any marketing or networking, but a card he put on a bulletin board at a convenience store ended up netting him $2000 when he wholesaled it to us. Like I said before, you just never know where your next fee is going to come from.

Conclusion

As you've seen here, there are many different ways to go out there and get business. There are many different programs available that generate sales leads, sellers, and buyers. Early on in your career, you may be tempted to buy some of these services but I would encourage you to stay the course and don't stray from what we teach here. When it comes to marketing and lead generation for your house-flipping business, there is no magic pill. There is no "hit the easy button." The biggest point is this: 95% of real estate investors never do anything. If you can be that 5% that takes action, you're ahead of everyone else.