House Flipping School

Module 5 – Analyzing and Sealing the Deal

This module is divided up into three sections: Analyzing the Deal, Making Offers, and Closing the Deal. We will address each one separately in its own section.

Analyzing the Deal

Analyzing the details is one of the most important things you need to know when you're investing in real estate by flipping houses or holding for long-term rentals. If you don't know how to analyze a deal, you're sunk. If you don't know what the cost of repairs is going to be, it will be very difficult for you to put an offer in.

The other side of the equation is knowing exactly what you can sell it for. This is just as important, if not more important, than what you're going to purchase the house for.

As a new investor, you may be tempted to just do your first deal even if the numbers don't quite work just to get one under your belt. You don't want to just do a deal to do a deal. To be successful you really have to follow rules, systems, and formulas. So that's what we're going to talk about and really try to teach you to understand: how you're going to present your offers, what formula you're going to use to present an offer you feel comfortable about it when it is accepted, and how to not be worried about having offered too much.

Don't Let Your Spreadsheet Be Adjustable

The adjustable spreadsheet – otherwise known as "eraser math" – is one of the biggest enemies of any new house flipper. Whatever you do, you don't want your spreadsheet to be adjustable. But this is all too common and I see it happen all the time, including some of the more seasoned real estate investors who are still falling victim to the adjustable spreadsheet.

But this is typically a failing of the new investor who is trying to get into a property for the first time. They always want to justify or come up with reasons why they can pay more money than what their maximum allowable offer should be. I even saw this recently with one of my former coaching students (Jerry), who was trying to convince one of my money lenders to invest in one of his properties. Fortunately for Jerry, my lender would not budge because he knew Jerry was using an adjustable spreadsheet.

What Jerry may need to do is dump the property or figure out a way around some of his renovation costs that were just simply too high – leaving him little margin for profit and worrying my investor as to the solvency of the deal.

When I talk about adjustable spreadsheets, what I mean is this. Let's say you've determined the property you found could sell for $400,000 once it's all finished. And let's say, you figured your cost of repairs were $80,000.

Then let's say you've already placed an offer but it was rejected because there are multiple offers on the deal. Do you go up on your offer? What do you do?

Inexperienced investors start looking at things and start convincing themselves that if they do a few more upgrades on improvements, they might be able to sell the property for $410,000 or maybe even $420,000. They start to rationalize and start to forget about the numbers.

One of the first things they start to fudge is their repair costs. Let's say you figured there would be $80,000 in repairs all told. An investor might think, "If I put some work in myself and if I can negotiate with my contractors, I could probably get this renovation done for about $60,000."

This investor then starts to convince himself that this "alternate reality" in his deal scenario actually exists. He starts to "adjust the spreadsheet" to mathematically arrive at the point where it makes sense to offer a higher price.

Just because the paper (or in this case the Excel spreadsheet) looks good doesn't mean that it actually is good. But the new investor goes out and offers a higher price, gets the property, does the renovation, experiences higher-than-anticipated renovation costs and a lower ARV, and ends up making little money or possibly losing money.

This unfortunately is a classic scenario.

Don't do it. Stick with your original numbers and don't deviate from them unless something materially changes in the deal. This is the best way to keep yourself out of trouble.

Stick Like Super Glue to Your Original ARV

If you have a projected ARV of $400,000 and you start to convince yourself that by adding marble countertops to the bathrooms, a sub-zero stove to the kitchen, or maybe a certain type of designer tile in the entryway or a larger back deck you'll get $410,000 or even $420,000, it's a slippery slope of rationalization upon rationalization – all doing nothing but clouding the numbers and jeopardizing your profit.

The reason is that the rules we discuss take into consideration a conservative ARV and the potential for the ARV to drop. Depending on the market conditions and seeing what the trend is, you can sometimes predict a changing ARV from the current ARV. This is very important if your projects will take more than six months. For instance, if the market prices were dropping .5% (half of one percent) a month based on the last several months, you should try to calculate a 3% decrease in the ARV if your projection is to sell in six months. So now you would be looking at $388,000 in the example above. You see why this is so important!

By the time the renovation is completed, the market always has the potential to shift in your favor as well and go up. I just look at that as a bonus and don't want to count on that to make a deal work. It is a slippery slope to go down, so you should avoid this approach at all costs.

So even after an excellent competitive analysis, the neighborhood in which you bought your flip now has ARVs in the range of $390,000 or maybe even $380,000. And you will end up OK if you stay with your original offer, but if you raise it to convince yourself that the ARV could be $410-$420,000, you can see how you can get in trouble.

Put another way, you might think in the current market environment, real estate prices are consistently appreciating, but this is extremely dangerous and risky thinking. If you now adjust your spreadsheet to convince yourself that you can sell the house for $410,000 or higher, and if the market shifts to where you can only sell it for $390,000 or lower, you have now completely lost your safety net. Where your original projection was $400,000, selling for $390,000 – although not ideal – is certainly not catastrophic. But anticipating your ARV at $410,000 and selling at $390,000? That $20,000 spread could be your entire profit on the entire deal if you didn't meet your repair budget, which we will talk more about next. This is why fudging your ARV is very dangerous, because it almost completely eliminates your safety net of profitability.

Don't Fudge Repair Costs: They Rarely Go Down

With just about every flip I've ever done, it seems my renovation costs always come out higher than my projections. I would say it's about one in ten where they are lower than my original projections. So I can nearly guarantee you that whatever you come up with for repairs, it's usually going to be higher.

So what we now do is that when we arrive at our total figure for renovation, for instance in our case here it's $80,000, we would add in another 10% (or $8,000) to the cost of renovation. We may even go as high as 20% over the original cost of renovation if we're not 100% sure.

But now instead of doing that, you've lowered it to $70,000, again trying to justify the higher offer and then by the time you get done with the project that original $80,000 estimate has turned into maybe $90,000 or even $100,000. Now you're really in trouble.

And definitely when you're getting into your first house flip, you just don't want to make these mistakes because it can cost you a lot of money. The best thing you really should do is move on. If you can't get it at the price that works with the numbers that you projected, and I'm certainly going to help you with that, then the idea is to move on from that and go put more offers out on other properties. You just can't get emotionally tied to anything. You've really just got to think with your head, not your heart. You've got to stick with your math, stick with the numbers you come up with, and go with it. If it works out, it works out. If it doesn't, it doesn't.

ARV – After-Repair Value

Whether you're flipping houses or investing in real estate for the long haul, there is no "secret formula" to success. Forget all those guru landing pages that reveal "insider secrets" to "only a select few" (of course you need to buy the $20,000-$50,000 course in order to find out what those "secrets" really are). When it comes to real estate investing and house flipping success, it's really not as secretive and cloak-and-dagger as you may think.

Mostly, it's just about the numbers and more important it's about the single most important number in any real estate deal you ever do…

ARV is Like Goal Setting

ARV is the most important number in real estate investing because it determines so many other things in all your calculations. Everything in your entire deal flows from this original number.

With ARV, you are reverse-engineering your entire deal – in essence working backwards from where you want to be to where you currently are. Think of it like goal setting. Let's say in the year 2014, you want to make $50,000 investing in real estate. This is a great goal to set for yourself.

You then need to write down all the steps that you'll need to take in order to achieve that goal.

When buying houses to flip or investing in real estate for the long term, ARV is like setting a goal. You are determining the end value of a property before you would ever consider putting an offer in. The ARV gives you the basis for creating the offer.

I hear this all the time from newer investors: *"I can get this house for $50,000, Mike, it's a steal! Should I buy it?"* Although buying a house for $50,000 sounds like a really good deal, the purchase price is completely irrelevant unless it's put into context. And that context is ARV.

These investors think they're getting a property so cheaply they automatically have a "great deal."

My first question back to them is: *"Sounds promising. What are their projections for selling that house for?"*

Some of them look at me and say, *"I have no idea. I can maybe sell it for $150,000."* Right there I say to them, *"So how do you know if this is a deal?"* Many investors make this mistake by just basing a deal on the acquisition price because it's so low. Although this house in this example may be a great deal, without ARV you have no context for whether it's a good deal or a crappy one. Although it's tempting, this is a trap you should never fall into.

ARV: Who to Contact

There are a couple of different ways to determine ARV. You can try to do it on your own or you can hire a professional. I don't recommend doing it on your own; instead, you should use an active real estate agent who has a ton of knowledge and experience in your particular area.

If at all possible, seek out the expert in your area, typically someone who will attend REIA meetings and meet-ups and local events. You can also call real estate offices or ask for referrals. Find out who the top producers are in the area and give them a call.

Simply tell them that you're a real estate investor and explain your model to them. Tell them about the property you are considering buying and ask them about the neighborhood and other homes that have sold in the area that are similar to this one.

Explain to the agent that this number is a very important number that will determine the success of your project. If they have worked with real estate investors before, they'll understand exactly what you're getting at.

ARV: How to Determine

Once you contact your real estate agent, ask *"What do you think I can sell this house for when I relist it?"* The most important question they should ask you is, *"What do you plan on doing to it?"*

This is where you will outline what your renovation plans are. Perhaps you'll be installing a new kitchen with new cabinets and granite countertops and maybe even stainless steel appliances. Tell them that you're planning on putting in a new roof, new windows, new water heater, etc.

As you start listing out all these improvements, the real estate agent should start to get a better idea as to what your ARV should be. With this information, the real estate agent will be able to evaluate the property far more easily instead of evaluating it in an "as is" condition.

The CMA…Beware

Once your real estate agent starts to understand what you're going to do to the house, they can then run a Comparative Market Analysis or "CMA" for short.

If you're new to your market or new to house flipping or real estate investing, don't necessarily agree with or go with the first number the real estate agent gives you. Some real estate agents at times have a tendency to over-inflate ARV based on CMAs. For example, on a property I did in Scituate, Massachusetts, last year, I bought a property in an area that I really had no prior knowledge of. The broker came highly recommended to me, and I had actually met her at a REIA meeting a few months prior.

I wasn't familiar with the area at all, and she came back with a really good CMA for me. Even though I had a good sense about her, I still wanted to do research on my own. So I got a map of the area with all the other comps that she had given me, then I identified them all on a spreadsheet using the map to lay them all out from where my target property was.

I then started doing some of my own research on Zillow, Trulia, and a few other real estate sites where you can pull information on recent real estate sales. I started to take apart her CMA house by house. Why didn't she pick this one? Why did she pick that one? How come she didn't include a property that sold a month ago that appears to be very close to my property?

After my analysis, suffice to say I had some questions for her. The next day I went to her office and analyzed the CMA with her house by house by house. The really cool thing was that she had an answer for everything that I asked her about. And each answer was backed up by solid data and insight that I never could've gotten from any of those real estate sites online.

And an example of that would be, *"Hey, how come you didn't use this property over here that's very close?"* And she said, *"Mike that's a great question. But with that property although it appears on the map that you have ocean views, yours has ocean views and this one does not. And furthermore that one, although it appears to be close to yours, is about maybe a mile down the street and just gets us into a little lower area, a little lower in comp values where you sort of stop on a line, to the right of that line where values are higher, more in demand."* So after hearing all her answers on the questions and concerns I had, I basically put my trust in the comp analysis that she did, I determined the ARV, and I went with that. And after determining the ARV we were able to apply our formula to really determine what our offer price was.

So an example on running comps: if you're doing it yourself, which I suggest you do, you're just going to put your best effort into trying to figure out some of these things by using some of the different sites out there but only as a check and balance to your real estate agent. Now if it's a real estate agent and you feel like you're not getting a fair shake or you totally disagree with her comps and her ARV and she's new, maybe you get another opinion or a third opinion.

You've got to remember, it's your money, and you really need to invest it wisely, whether it's your cash or even if you're working with a lender that's lending you the money. So it's very important that you feel really good about this ARV. I can tell you if you get that wrong it just gets hard to make any money on a deal working out backwards from a bad ARV.

Other Factors Affecting ARV

ARV is not determined in a vacuum. There are some of the other things you need to know about ARV before you put in an offer:

Square Footage: For example, you might have a 1200 sq. ft. ranch where all others in the neighborhood are 1400 or 1500 sq. ft. or maybe much smaller, say 900 sq. ft. If this is the case, you'll need to adjust your values accordingly either up or down.

Number of bathrooms: Let's say your house is 1.5 baths and the other houses in the market are 2.5 baths. Then your house is going to be worth less because it has fewer bathrooms. The reverse is true as well.

Number of bedrooms: Same as with bathrooms; a three-bedroom house obviously is less valuable than a two-bedroom house. You'll need to make adjustments upward or downward based upon the comps in the market.

Kitchens: If you see that not many of the comps in your market have brand-new kitchens, you may be able to price yours at somewhat of a premium. As with all our house flips, we do full renovations and install brand-new kitchens, which show and sell extremely well.

Kitchen appliances: Let's say you're seeing lots of comps in other houses with old, outdated kitchens that are being sold for $400,000. If you renovate your kitchen, especially if you install new stainless steel appliances and granite countertops, you'll probably be able to sell the house for more money. Yes, kitchens are that important and could add $20-30,000 more to the sale. This is just a hypothetical, so it is unlikely you will find all the comps with outdated kitchens but the point is to use the information you collect wisely.

Days on market: The days on market will help you determine carrying costs as well as ARV. Typically, we like to figure six months on every property from purchase to close, so we factor in six months of soft costs into all of our equations. Having said that, we will always project out 12 months in case things don't go according to plan for whatever reason. You can also figure out what your cost will be nine months out as well.

How Much to Pay…Using the 70% Rule

So we're now going to get into a little bit of how much to pay. We've taken some steps to determine the comps in the area and that's a great start. From there, you heavily rely on your ARV. And from there we need to know what the cost of repairs is. This is very important but at this point you don't know what that number is. When you do your walk-through with your general contractor, you'll get that number. We'll get to that part on how to determine renovation costs in the next module.

Now you have in your possession the two most important numbers in house flipping. Once we know those two numbers, then we can apply our formula. It's called the 70% Formula or otherwise known as the 70% Rule. It's a very common formula, and thousands of other investors use it because it works so well.

Some investors don’t quite understand how the 70% Rule works – but you really need to. You could adjust up or down, depending on the market you’re in, depending on the price of the home. For example, if you’re dealing with $100,000 resale prices, you might want to try to buy at 60 to 65% – but for our purposes here will use 70% and stick to it.

Sometimes we use a percentage different than 70%, because sometimes we have to adjust up or maybe even down based upon the property. But for the most part, when you’re getting started you want to use the 70% Rule.

So in this particular example we’re looking at an ARV for a property that we determined is $200,000.

We determined that, according to the real estate agent, everything in the neighborhood is selling for $210,000, $215,000, $205,000 – all in that range. So based on our CMA, we’ve determined that $200,000 is a really good price point.

Very simply all you want to do is take that $200,000 and apply the 70% Rule – which simply means that you will multiply $200,000 times 0.7, which will give you $140,000. Now if that house is in perfect condition, your maximum allowed offer would be $140,000. But the reality is as a house flipper, you don’t buy houses in perfect condition. So chances are you’re going to have to do some renovation. After all, distressed properties are what you want to ideally go after.

These are properties with failed septic systems or even ones that have mold, ones that are full of trash: properties that everyone wants to run out of as soon as they walk into. These are the ideal types of properties for you. When you start buying these kinds of properties, you typically are not competing against the retail consumer.

So let’s say for the sake of argument the cost of repairs is $40,000. You had your contractor come in, he’s looked at everything – the plumbing, the roofing, the siding, what have you – and he feels pretty confident that property is going to cost $40,000 to repair. As the next part of the formula you then subtract that $40,000 from the $140,000.

So you’re looking at a maximum allowed offer of $100,000 on this property.

Now the one thing you don’t want to do is immediately offer $100,000. This is a common new real estate investor mistake because you put in your maximum allowed offer and you don’t leave any room for negotiating. And when that happens, you’re stuck. Remember that this number is your maximum number to pay, so always start lower.

These formulas are only as good as the starting number, meaning the ARV has to be very accurate to begin with. Let’s say you have a brand-new real estate broker, and she’s very excited to get "your business” so she gives you an ARV of $215,000. This now affects every other number downstream.

In this case, you take the $215,000 and multiply that by 70%; you're now at $150,500. So instead of the $140,000 you're at $150,500. Although that other ARV number is only 7 or 8% more than the $200,000, these mistakes start to add up.

You actually buy the property at $110,000, and maybe it takes longer than you thought it was going to take. You might be into it for five or six months but things are finally getting done, and you're getting it wrapped up. In the meantime, though, your repairs end up costing you $50,000 instead of $40,000. To make matters worse, you go to sell and now the real estate agent (whether it's the one you bought it from or not) comes back and says you need to sell it for $200,000. You're now stuck because you thought the property was worth $215,000, and all your repairs and acquisition costs were based upon those numbers.

Now you're $15,000 under your original ARV.

And it's not over. Suddenly, the offers start coming in and they're not even close to the $200,000. So you settle for an offer of $195,000, which she thought was a good offer overall based on the market conditions.

Although in this case, these are not catastrophic mistakes, like if the house went from $215,000-$180,000 and you projected $40,000 in repairs that actually cost $60,000 or $70,000. And by the way, those are real-life examples of what can happen because I talk to investors all the time about these things; if this were to happen, you would be losing serious money on your flip.

In our example, you were originally looking at a $200,000 property and were trying to profit $40,000 on this property. And based on these numbers, you just took a hit of $30,000, which leaves you $10,000 in profit. Although making $10,000 is nice, you don't go into this business to only try to make $10,000 on a property that takes over six months to flip. It's just not going to work.

And that's why these numbers*, and I can't stress it enough,* are so critical. And more important, it is vitally important that you stick to them.

Is It a Good Deal or a Bad Deal?

Let's take that $50,000 house from an earlier example to see whether it really is "a good deal" using two different scenarios. Let's also assume that the property needs $50,000 worth of renovation in order to be able to sell it on the market.

Bad Deal = ARV is less than $140,000

Why? If you use the 70% Rule alongside ARV, this property doesn't meet our criteria. Here's why:

ARV: $130,000

70% Rule: $91,000

Acquisition Cost: $50,000

Renovation Cost: $50,000

Total Cost: $100,000

If you're familiar with the 70% Rule by now, your acquisition cost plus your renovation costs should equal 70% of your ARV. So in this case $100,000 is too high as 70% of $130,000 = $91,000. You would end up paying $9,000 more than you should. Bad deal. Good Deal = ARV over $150,000

ARV: $150,000

70% Rule: $105,000

As you can see, the 70% Rule actually gives us a $5,000 cushion over our acquisition cost and our renovation cost. Of course, an ARV over $150,000, let's say $200,000, makes this an absolute home run. Don't count on that big of a spread, however, because you will most likely price yourself out of getting any deals.

The point here is this is why you have to determine ARV first and not acquisition price and cost of repairs (CORE). You are doing it wrong and it gets confusing. Simply take your ARV and multiply by the 70% or .70 and then subtract your CORE; that gives you your MAO. It's that simple.

Making Offers

This is where the rubber meets the road.

The most important thing about making offers is that you just have to go out and do it. You can't worry about whether your offer is accepted or if it's too high or if it's too low – the most important thing is putting in the offer itself. Just follow the 70% rule when doing so.

Regardless of your type of offer, the bottom line is there are ways to protect you against making offers that don't meet your criteria, and we'll get into that in this module.

The real lesson is this: if you don't make an offer, you'll never get a deal!

If you never actually make any offers, you may be suffering from paralysis analysis. A big part of making offers is that you have to accept the reality that the only way you're going to get into this business is by placing offers – and in many cases, multiple offers.

When your offers get accepted, that's a whole other subject entirely, which we will get into along with how to deal with the excitement and the potential fear that goes with that.

Once you do your first deal, you get over that hardest part. You did it. You made it. You got over the barrier of getting that first deal under agreement and the good news is that it gets easier from there as you build up confidence and gain momentum. And with house flipping, as with any venture, you learn more from doing it than you'll learn from any book or CD or educational course.

But the bottom line is you learn the most by doing. And this is true whether you're a brand-new real estate investor or you have been doing it for many years. Personally, I learn every day by doing. Every day, I still learn from doing deals, doing buy-and-holds and, of course, from all my flips. I learned more from all that activity than I ever did through books, seminars, or CDs. That's not to take anything away from these educational pieces because they're an excellent way to continue your education. In fact, I'm constantly educating myself to get better at what I'm doing. And you want to continue to do that as well. Only a fool thinks he knows it all and stops learning.

So it's a combination of factors to get good at making offers, but far and away the best way that anybody can ever learn is by simply doing it. And, of course, when you have someone who can mentor, coach, or guide you to keep you from making those big mistakes, then that's just the best of both worlds.

So once your offer is accepted real house flipping reality sets in – but that's also where a lot of the fun begins. So let's get into it.

Where and How Many Offers To Make

This is a question I get asked a lot. Many people have different views on this. The real answer is that it's really up to you to create your own personal style as to how you put in your offers and your style may be very different than mine. But for starters, take what you learned here and adapt it to your own style.

Many other real estate investors say that you need to put 100 offers in a month to get two or three deals. For me, I never put that many offers in because I feel like I'd rather focus in on fewer offers and do a little bit more due diligence rather than throwing a bunch of lowball offers out there and creating more work for myself and my team.

Placing multiple offers means that lots of work will be done for relatively small gain. If a property is listed at $260,000 and you place an offer for $140,000, what are the chances that it will be accepted? The reality is that the probability of acceptance for an offer like that will be very low. Not to say it wouldn't get accepted but the odds are it won't.

So the idea is to put offers in that have a higher likelihood of getting accepted versus ones that would not. I don't think you have to put in 20 or 30 offers a month when you're first getting started to be successful. If you put in a couple of offers a week, that would be a good way to get started. And based on your acceptance level, you may need to start putting in more, but you'll need to gauge that as time goes on.

When it comes to placing offers, you want to start local at first. I'm not saying you shouldn't ever buy anything out of state, but I think your first investment or flip should be local so you don't have to travel outside of your area. When a deal is not local, when something happens to adversely affect the investment, it will likely be more of a process to get the issue resolved from afar that ever would be if you were local.

Having said that, we are now buying out of state. But I've been doing this for over five years now, and I feel very comfortable about doing out-of-state deals. But I would have never considered that three years ago. So again, you should keep your primary focus on local deals, deals within driving distance where you can feel comfortable in running a project and have local control, versus something out of state where you're relying more on your project managers or your real estate brokers and events are less controllable.

Simply put, keep this house flipping thing as simple as possible. Keep it simple, stupid (KISS). You don't want to overcomplicate it if you can help it. The same goes through for putting in offers: keep it simple and keep your focus on the best potential opportunities. If you just boil it down to fewer higher-quality potential targets, start putting those offers in and then the results will happen, with minimal confusion and complexity.

When to Make an Offer

There are many different ways that you can look at this. It starts off with identifying potential properties, which we've discussed in the previous modules. Getting yourself out there, doing the networking, meeting the brokers, talking to wholesalers, going to REIA meetings, going to BNI meetings, going to the Chambers – these are all great lead sources for potential deals. These venues for meeting people are how you start building your foundation of potential leads by having people help you find and source potential properties to flip.

There are many different ways to make your offer. There's not one way or style to make offers. There is no magic formula. First off, you want to understand where the lead came from before submitting an offer on it. What I mean by that is depending on where that lead came from – whether it was a short sale, a wholesaler, or someone in BNI that gave you a vacant property – will determine how you structure that offer.

So there are some basic questions to ask your team prior to submitting any offers. These people would be your REO broker, your short sale broker, your wholesalers, and other people you created relationships with who are helping you find deals.

Questions you need to ask your real estate agent are: Who is the listing broker? What is your relationship with that person? How many days has the property been on the market? Are there other offers in? Have all of those offers been submitted together? What is the date for this? Are you offering this to other investors or to homeowners?

You want to ask these questions because you want to understand how you need to structure your offer. These are extremely important questions to ask. And sometimes agents will be resistant or maybe they don't want to answer them or maybe they simply don't have the answers to them. So you as the investor or the buyer need to gather this information – or at least as much of it as you possibly can.

How to Time Your Offers

Say the listing broker has her list of investors that she works with, and she wants to work with them because she's listing it on both sides – on the purchase as well as the eventual sale. She'll be highly incentivized to work with that other investor because she gets both sides of the commission. Of course, that's just human nature to want to make as much money as possible on a deal. And in these cases, she'll likely favor the investors she's working with over you as the outsider.

Going into an offer, it's good to know how your agent works with the listing broker, if she gets along with them or if she doesn't. If she does, that's great, because now she has a relationship with that listing broker and this could be an advantage for you. Knowing her past history is also important, and it will give you an insight as to whether she is going to play fair, if she's going to submit your offer in a timely manner, and many other factors.

And that's why it's so important to know if there are other offers in and whether they are being submitted together and on what date. I learned this by trial and error and by seeing different ways offers have been submitted. If I submit an offer with a broker I don't know and I'm getting the feeling that I don't know where I stand, I want to have a better sense of what the rules are going in.

Another factor to consider is that not all offers will be submitted at the same time. In many cases, the bank will set a specific time and day during which offers will be submitted. If that's the case, then I don't want to put my offer in on a Monday morning when offers are only submitted Tuesdays at 5 PM. In cases like this, I don't have any control once that offer goes, and I certainly don't want my number being shared with anyone else.

I'm not suggesting that in cases like this, the listing broker is sharing information with anybody else – but all I know is the most logical strategy would be to put that offer in at the very last possible time. In this case, maybe at 4:30 on Tuesday if the deadline is 5:00 PM Tuesday. Whatever I do, I want to submit later rather than earlier. That way, I can gather as much information or make my highest and best offer – knowing full well that there will be little chance for counteroffers and they're just going to accept the best offer they feel is suitable for that particular property.

So in some cases, timing your offers is extremely important. But you need to gather information on this to understand the particular situation for every property you want to make offers on.

So knowing who you're putting your offer in with and how they're putting it in will ultimately determine your offer-making strategy.

Placing Offers with Wholesalers

Wholesalers, as we mentioned before, are great sources for deals. But how you structure offers with them is far different than with other sources.

Let's say a wholesaler you met at an REIA meeting brought a deal to you. What you should first ask that wholesaler is: *"Am I the first person you're bringing this deal to or have you sent this out to everyone on your buyers' list?"* The next question I would ask them is: *"How much time do I have before you would accept an offer?"*

These questions are important because if you get excited about a property and you spend two or three days or four days researching it and running comps and finding out what the cost would be in all the information you learned in Module 5, you may do hours of research, determine that the deal is a really good one, and call the wholesaler, only to have him say, *"Oh, I'm sorry. I already put it under contract with someone else."*

In cases like these, the wholesaler should be up front with you and tell you that there are other potential investor buyers , but don't rely on it. It's your job to ask up front.

Knowing that you're in competition with other investors ahead of time will help you to determine how much time and effort you should put in to going after that property. There have been times when a wholesaler brought a deal to me, and I would tell them to give me a couple of days for me to analyze it before I accept the deal. You'll very quickly get an understanding of the urgency and how many other investors may be involved and if the answer is going to be yes or no. If he is going to give you two days, you now have the ability to do your due diligence, and he will hold that price for you until later in the week. You may even get him to hold it for you until just before he sends it out to his buyers list.

Once again, this kind of understanding stems from good relationship building and working with individual people and having them know, like, and trust you. Not every wholesaler is going to do that, however. One might just say, *"No. I send it out to all my buyers and the first one who comes back with a yes, I accept."* And that's fine, because that puts them in the driver's seat and they are in it to make the maximum profit as quickly as possible. But the key here is knowing how the person on the other end is working, so that it can benefit you the most. If you have a relationship with that wholesaler, it changes the entire dynamic.

Relationship Building with Wholesalers

As we've gone over before, I chose to create relationships with wholesalers to source some of my deals. And that comes down to who you know and relationship building. But more important, what does that wholesaler know? Likewise, what does that REO listings broker know? Are they the dealmakers? Are they the ones that have the good relationships? Does that wholesaler have key relationships with maybe the number 1, 2 or 3 REO listing brokers in the area? How do they foster those relationships? Is it beneficial to you to try to create relationships with those REO listing brokers? Possibly. You need to find out this kind of information to put yourself in a good position to make an offer.

Or what happens if you create a really good relationship with that wholesaler, and you know that he is a key component in getting really good deals to investors? Well, then your drive is to create that relationship in my opinion with that wholesaler because you know what he knows now.

And that's really what it comes down to. If you need a wholesaler and it falls into that category of who you know and you met him at an REIA event, and he tells you he's a wholesaler; well, you really don't know too much about him yet, do you? You asked to be put on his buyers list and you left it at that. What is it that he knows and how are you going to find that out? Why don't you meet with him after an REIA meeting? Why don't you go upstairs with him at what is referred to as the meeting after the meeting at a lot of these REIA events? When the speaker is done and there's some networking done, others will continue the conversations and network more. That's where the real deals get done.

Others may go into the bar on premises and may loosen up a little bit and have a soda or a beer and just get in a more casual atmosphere and then you can really connect with that wholesaler and you can say, *"So tell me, how are you getting deals?"* Maybe he doesn't want to tell you his secrets, but be persistent and find out where he's getting his deals. You may want to ask him how many deals a week he is presenting to buyers. This is what I'm most interested in. What can I expect from you? He may not want to tell you everything, but he will tell you a fair amount in that meeting after the meeting.

Once you figure out he may be a player, ask him how many wholesale deals he is doing a week or a month. If he can't answer that, he might not be doing any. If he says on average he's doing five a week or 20 a month, then I would say that's a pretty successful wholesaler and that's probably somebody you want to latch on to. The idea is for you to create that relationship with him so that you get on that buyers list and start to build upon the way you become important to him because you're someone that can close on a deal that he presents to you. This is how you build a relationship and get deals that other real estate investors may not get.

Actually Making the Offer

When it comes to actually making the offer, you want to really keep it simple. You don't want to overcomplicate things at all. And what I mean by that is the more contingencies you put in, the more you have your attorney work on it to protect your interest, the more complicated it's going to get – and in the end, you may not just get any deals because there's too much going on in the contract.

Of course, you want to protect yourself as much as possible, but you don't want it to get too complicated so you don't get any deals either. Having said that, you certainly don't want to buy anything that could be problematic with title issues or any other complications that could hinder your ability to sell the property later on.

Ideally, you want to really present your offer in the least complicated manner as possible. But at the same time, you want it to be a strong offer. And in the beginning, it's a little more complicated because you're doing your first deal and you want to protect yourself as much as possible. Of course you want to protect yourself, but you don't want it to be so complicated where your offer gets pushed off to the side and not even considered.

You want to present your offer as simply and as attractively as possible. In many cases, if you can present it as an all-cash offer, it will immediately be favored over someone putting in an offer subject to financing. And from the bank's perspective, especially if it's an REO property, and you are offer number one and your offer comes even below other offers that are subject to financing, your offer is immediately more attractive to the bank. It doesn't always happen this way, but in many cases it does.

The Strength of the All-Cash Offer

All-cash offers are very often far more attractive, which is why learning how to raise private money is so vitally important to your success as a house flipper. We covered that in Module 4. Refer back to it if you need to.

Let me give you an example. I recently purchased a flip that started from an all-cash offer at $120,000. There were three offers higher than mine. Not only that, but they were other investors too. I believe there was an offer for $145,000 from an end buyer, but it too was subject to financing. I had been following this house closely, and I knew that the deal fell apart on previous occasions.

What I found out was that the other offers were most likely retail buyers or homeowners looking to get into this deal, and they were subject to financing or subject to inspection. The property had a failed Title 5, and the bank was getting fed up with offers falling through as well as just having the property on its books for such a long period of time. The bank had dropped the price way down to where my price was actually higher than listing price. I figured if I could offer $20,000 over the list price, I would not only make a great profit but I would also have a far greater likelihood of the offer being accepted.

This underscores the importance of an investor understanding the numbers and if I were to put an offer of $100,000, the offer would likely not be accepted because there was so much other competition. I knew there were other investors competing for it, so I offered over asking price. Not only were there prices higher than mine, but there were also some super lowball offers at $70,000, $80,000 and $90,000, none of which were accepted.

In cases like this, it’s good to not get greedy; identify a good deal and make an offer that works for your numbers and there is a greater likelihood of actually getting the deal.

So I put in my best and highest offer after doing all my due diligence and I got it. And believe it or not, I didn’t get it by much. I later found out later that I was about $1,000 higher than the next cash bidder.

There were other aspects to this offer as well in addition to the fact that it was. I also had waived my inspection to make the offer even more attractive.

The bank was in a different type of situation where they lost four or five months and trying to get more money for the property, but at the same time they lost money by keeping it on the market for too long. This is a difficult situation for many banks when they realize they need to open it up to other investors. And an investor who comes in with an all-cash and waived inspections clause offer looks very attractive to a bank. They were very motivated to accept my offer over higher offers because they had been burned with contingency clauses and financing issues in the past.

We got the house renovated it and made around $34,000.

In some cases, I put in that I can close in seven days, knowing full well that the bank probably will not be ready to close in seven days, but it makes my offer far more attractive versus some of the other offers

Exit Strategies

Whenever you start making offers, you always want to have an exit strategy in place, as well as some kind of escape clauses. It's also important to make sure that you place offers so that they look far more attractive than your competition. At the same time, you don't want to have certain types of escape clauses that make your offers look considerably weaker.

So these are just ways out, same as an escape clause, which gives you a way out of the contract. However, be careful that you don't use them too often as they may hurt your credibility. Whatever you do, you don't want to put these contingencies in and then once they're accepted, say no to multiple offers. This can be very detrimental to your reputation as a real estate investor because the real estate agent or whoever you're dealing with may just feel like you're wasting their time.

Having said that, it's also good to let them know ahead of time what your offer strategy is. Again, this is all about being proactive and not reactive in your house flipping business.

Let's use another example. Let's say that your real estate agent brings three potential deals to you. Rather than putting an offer on just one of them, if they're all legitimate deals you may want to put an offer in on all three of them to give yourself a better chance of getting one. It's leveraging the offers vs. putting an offer on just one that diminishes your chances. However, you should talk to your real estate agent about your strategy. Tell her that you want to submit offers on all three of them because it would give you a better chance to get at least one. As long as she knows this in advance, everything is okay. If you're not in a position to close on all three of them, tell the real estate agent that as well

That way at least the agent knows ahead of time that you are really serious about buying a property but it's good for her to know that if all three gets accepted, you have some escape clauses to get out of the other two. If that's the case, you can keep the best one of the three. This kind of strategy increases your odds in getting a deal.

Using Timed Offers to Your Advantage

One strategy we use all the time is to put an offer that needs to be accepted in 24 or 48 to 72 hours. I've placed offers where the offer is only good for 24 hours, or any other suitable period of time. If it's a bank, they are really probably not going to get back to you within 24 hours or even 48 hours in most cases.

So if they happen to get back to you after the time frame you put in the offer, you have an out by saying, *"I'm sorry, but based on you getting back to me after my allotted time (whatever your timeframe was), I purchased something else."* In most cases, you don't even have to give them a reason; you can just say they're out of contract. They didn't accept it in the time frame that you wanted, and you refuse to go forward with the deal.

So that is one way to do it. If you feel you need an inspection, you should do what you're comfortable with. The more contingencies you have may affect whether your offer gets accepted. This is why it's so important to do your due diligence while you have time.

How to Juggle Multiple Offers

Now let me just give you another scenario. Let's say you put in offers on properties A, B and C, and for whatever weird reason all three of them got accepted. The first thing you should consider is that your offers may have been too high to begin with. But for our purposes here, let's say that they all fit neatly into your 70% formula and all three came back as accepted.

What I might do is keep the best one. You may be able to share the other two with other investors or you may be able to assign the contracts to another investor. How you assign them is all going to depend on the bank – and if it's an REO you may not be able to assign at all.

So that's why you have to do each offer on a case-by-case basis. There are many ways to submit offers and multiple contingencies.

Another example is that you can put into your offer that the seller needs to pay closing costs, to pay tax stamps, to pay for the smoke detectors, to pay for inspections, and/or to pay for attorney's fees. I know a lot of these things seem far-fetched. I personally don't put many of these things into my offers because especially in a sellers' market, you need to realize that some of the powers in the seller's hands. And when you submit offers such as these, they have a lower likelihood of being accepted.

But you may want to try it. You may talk to your real estate agent, and again this is information gathering, and she may say*, "Hey, yeah we can put those there."* And a lot of times the bank might not even notice, and the offer could get accepted despite these contingencies. If you're the only one putting an offer in, I would say try it. But if there are several offers coming in, if they're saying best and highest, then I would suggest not putting them in. So it's about knowing the place you're in and how you're structuring your offer.

Closing the Deal

You've built your team, you started locating properties, you're analyzing deals, and you've located ways to find your deals. Now it's time to get offers out there and start to close some deals.

Put Up or Shut Up

From Module 1 onward, we talked about the real estate mindset and how important it is and how we have to continue to be positive and not let fear get in our way. And I can certainly tell you before I put my first deal together, even after I went through two years of educating myself and preparing, preparing, preparing, and preparing, sooner or later I had to put up or shut up. And get over my fears of putting those offers out there.

Because one of the things I experienced was the fear of *"what happens if they accept it?"* Once that happened, I could never look back and I could actually say that I'm officially in the house flipping business. That reality sort of freaked me out a little bit. Everyone has their irrational fears and thank God I got over mine!

How to Handle Deals That Get Denied

When I first started, I had a little particular system that I used if an offer got denied. I would put that property in a 30-day pile or put it in my online calendar. Then I would follow up on that property.

I would suggest you do that very same thing.

Don't just throw it away. Don't put it in the trash. The bank may not be in a position to sell at that point. It may be overpriced. There are a million reasons why which you know. The possibilities of why the offer was not accepted are endless.

If it's more time-sensitive and you think you might have to act more quickly, then you could put a note every two weeks in your file to remind you to take some sort of action. Once you have a property that you're interested in that meets all your formulas, you need to watch it until something fundamentally changes. Sometimes it could take 30, 60, or 90 days.

I've had properties where I was just about to throw it in the trash, and then I'd watch it come on and off two or three different times and then just happened to be in the right position at the right time to make an offer and the bank would accept it.

Most investors will move on to the next property. But savvy investors sometimes will watch those little sleepers because that's often where you find the real diamond in the rough.

Have Your Money Ready

As we talked about in Module 4, getting your money lined up first is always a good idea. As a real estate investor, you're always going to be working both sides. So by having your money ready, you're ready when the deal comes together. Don't worry too much about it if you don't have a lender that's onboard with you right at the moment. They will come when you have a deal as well. There's always a way to fund a deal.

If you have a private lender already lined up who is fully committed and saying things like, *"Hey yeah, if something comes along let me know and that way the money can be sent over,"* all you need to do is find a deal and then match the deal with the funding. Keep open communication with them, and tell them that you're submitting offers and you want to know if they'll be ready if something gets accepted to get it funded. That way you're preparing them for when the time comes.

And if they say no when the time comes, then you might ask them what particular reasons why they are holding back or what it is that you need to do to make them more comfortable and so on and so on. It's always great to get objections, because that way you can answer them and try to get them to that level where they're comfortable in lending with you.

If you're talking to someone and it's their IRA money and they've already converted it to a self-directed IRA, then you can be rest assured they are committed to work with you. Converting to self-directed IRAs takes some time to do. In preparation, you want to start making those calls to anyone that might be interested that has an IRA. And if they are interested in lending you money to do your deals, you want to instruct them to convert their money from an IRA to a self-directed IRA.

The Purchase and Sales Agreement

So what happens when you put in your offers and one gets accepted? Some of this may seem like basic knowledge, but these are important things here. I don't want to just assume that you know every piece of the puzzle here.

Basically what happens when you submit an offer and it's negotiated, you might go back and forth on the price, but once it is accepted then that offer is converted to a Purchase and Sales Agreement, which is also known as a P & S with a projected closing date. Sometimes those closing dates need to be amended, but at least the date and time are picked with the signing of the P & S. It all depends on the process and what's happening with the title and many other reasons why.

I can tell you from years of experience that not too many closings happen early. In a lot of cases, they are extended through no fault of our own or at least with no fault of the sellers as long as you provide everything you need to. Typically the banks are just a little slow in reacting to our needs.

One thing on the P&S: if it is an REO bank-owned property, you want to go through the P&S very carefully. But in most cases, you're not going to be able to change anything on that P&S.

Corporate Addendums

Whatever you do, you want to make sure to send the P&S off to your attorney for review just to be safe. This will give you peace of mind to know that everything in there isn't too crazy and you are protecting your interests. One thing I have noticed is a lot of banks are putting corporate addendums on their P&S. The corporate addendums will supersede and override a lot of things that are in the P&S. Sometimes that can be to our advantage, but other times it may not.

You need to be really careful in accepting those. In most cases, we haven't had too many problems with them, but there have been times when we really have looked at the fine print and concluded that we wanted to get out of the deal because we couldn't change their corporate addendum. And that's why I always recommend that you read it yourself and also share it with your attorney after you've read it and make sure you point out any things that you might not understand, all the while getting his take on it.

I've seen a corporate addendum talk about title insurance, about the seller providing the title insurance at their cost. And I thought*, "Wow, how nice they're going to pick up the title insurance cost."* It just seemed too good to be true. And when you get that sense, it probably is. As I read further, what it was saying was that they were going to provide the title insurance, but I did have the option of adding my own title insurance. At that point I would have to pay for it as well.

Also, I have seen in other corporate addendums that when you choose to use your own title insurance company and your own attorney, you also have to pick up the tab on their closing costs – which is kind of like strong-arming you into doing business with them and borderline illegal, in my opinion. I believe that in some cases it's illegal, but that's a discussion for the attorneys to hammer out.

I've seen some addendums that discussed insurable titles. Now there's insurable title and there's marketable title. There's a difference between the two. And insurable title is basically a weaker title insurance policy, which could be a problem not when you buy it but when you go to sell it. If it's not what's known as marketable title, which means it's marketable and the property can be sold without any difficulty regarding the history of the title, you could have a problem. In that case, they're giving you insurable title but when you go to sell it you may not be able to.

In cases like these I always consult my attorney. In this particular case, I actually paid money for my attorney to do some title work on it to see what we might be facing. In this particular case, they had no title work done that my attorney was able to discover. It wasn't recorded. We were therefore at the mercy of the banks and had no idea what the potential title problems might be. I had to buy it with a potential defective title with the possibility of fixing it. However, if we didn't know what we could fix, I really couldn't make a decision. The real issue was that if I couldn't clear the title, the asking price was significant enough that it was too much of a risk.

This is where you have to be very careful of corporate addendums, especially with regard to title. You need to pay close attention to corporate addendums, especially if it happens to be a bank-owned property. Look at it, read it, understand it, and then send it to your attorney for a full review. If your attorney understands what the problem is, you may have a very good deal on your hands provided it can be resolved. Regardless, do your homework and make sure you scour through every document that is presented to you on any property purchase.

Earnest Money Deposit

So let's say everything looks good on the P&S and even the corporate addendum is okay. At this point, you want to give your earnest money deposit. If the property is a multiple bid situation, you might want to consider a higher earnest money deposit when you put your offer in. Just a little extra in presenting your offer that might get your offer accepted over somebody else may make the difference as to whether you get the deal.

I have not had to do this too many times, but you can make your earnest money deposit "hard." That means if you're putting down $10,000 earnest money deposit in your offer before your offer gets accepted and you're willing to make it hard, basically you're saying is you're willing to forfeit $10,000 if you try to back out. This can go a long way in a competitive market. So if there is a competitive bidding process, you may want to ask your agent about making a hard earnest money deposit. It could be the thing that gets you the deal over the competition.

The HUD

The first thing you're going to do is make sure from your attorney that he can deliver a clean, clear, and marketable title. And once that title is clear, you're able to get marketable title insurance on it. Once that has been determined to be good, then pretty much everything else will fall into place and you can set a closing date.

This is when you typically get the HUD statement. I would love to get them three days in advance, so I can review them and work out possible discrepancies in time. For whatever reason in most cases, I get HUDs a day before, which is annoying. The HUD is basically a summary of everything that's been done previous to that point and will show you the disbursement of money that's coming in, what taxes are owed, what broker fees are to be paid, what other fees are – basically the entire transaction in one big long form. It's more or less a formality, but you should not consider anything a formality in this business, and you should review it like you've reviewed any other document in the entire transaction.

Always review the HUDs to see if there are any errors, line item by line item. Once it's reviewed and everyone agrees that everything is okay on the HUD, the next step is to go to the closing table.

Insurance

While this is going on you want to talk about getting your insurances in place with your insurance agent. Once again, it's vitally important to build your power team and finding a good insurance agent is important at this stage of the transaction. It's important that when you're putting offers out there and they're getting accepted, you already will have your team in place. You already want to have your insurance agent selected, so you're not scrambling and trying to find the right person to insure your property.

Typically you want to get your insurance agent a week's notice, or more. Just let him know you're working on a property. You want to get a quote on the insurance but you don't want to bind coverage yet, and then you want to give him the closing date. And then a week before, you want to remind him that you're closing on this date and you want to have coverage bound. Then he will bind the policy so it will be ready to go on the date of the closing.

Insurance coverage is extremely important, especially if you have a bank that's lending you money in the deal, as they will require it. The bank won't even let it close unless they see that insurance policy. If you're working with a private money lender, you want to make sure that they are on that insurance policy as well. So you'll need to get that prepared ahead of time and have that ready.

One other thing you might want to consider is getting your liability insurance policy in place. Depending on the contractor you're using and the types of insurance he has, you will determine whether you need to get a liability insurance policy in place for yourself. But that's something you want to talk to your insurance company about. Make sure you have the right insurance in place so that in case of a disaster happening you will be sure you are insured. And it has happened. People think they have insurance and they don't. Something happens to the property and then – it's just not a good situation. You want to avoid that at all costs.

So if you're purchasing a property near a body of water or a certain distance from the ocean, you're going to need to get what's known as flood insurance. It's a requirement for the banks 100% and depending on where and what you have it might not be mandatory, so you really want to talk to your insurance agent about that and find out what your options are. One thing you want to keep in mind about flood insurance is what the cost is going to be for the end buyer; if it is going to be very expensive you might lose the ability to sell the house.