



# Agenda

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- Basic RE Investing Terminology
- Investing Economics – How Much Do I Offer?
- The 12 Ways To Buy & Sell RE
  1. Cash, Wholesaling, & Assigning
  2. Buying Subject-To
  3. Rehabbing: Fix & Flip
  4. Land Lording: Buy & Hold
  5. Pre-Foreclosures & Short Sales
  6. Bank Foreclosures, Tax Foreclosures & Auctions
  7. Owner Financing & Wrap Around Mortgages
  8. Lease Options & Variations
  9. Equity Partnering
  10. Auctioning
  11. Equity Holding Trusts
  12. House Swapping
- Conclusion



# Basic Terminology

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- **After Repaired Value (ARV)**  
The retail market value a property should have after renovation or repairs have been made
- **Assignment of Contract**  
When the name on the contract is put in another investor's name (in exchange for a fee)
- **Bird-Dog**  
An investor that finds properties for other investors (usually for a fee)



# Basic Terminology

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- **Flipping (Flip)**  
Buying a property and reselling it again to an investor or end-buyer (usually for a profit)
- **Owner Financing**  
A transaction in which some or all of the money for the purchase is supplied by the seller (in the form of a loan)
- **Pretty Home (Cream Puff)**  
A home not requiring renovation



# Basic Terminology

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- **Subject To (Sub 2)**

A transaction where some or all the money used for purchasing the property is supplied by the seller's current mortgage

- **Simultaneous Close**

A Flip done on the same day the contract closes where the money to buy the property comes from the second buyer



# Basic Terminology

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- **Ugly Home (Wreck)**  
A home needing repairs or renovation
- **Wrap-Around Mortgage (WRAP)**  
A new mortgage that is created to encompass an underlying mortgage (usually with a lower interest rate and/or balance)



# Investing Economics

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How Much Do I Offer?



# How Much Do I Offer?

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- Maximum offer:  
70% x ARV minus repairs

## Example:

- Home will be worth \$100K after repairs
- Home needs \$12K in repairs
- Offer to buy at:  
70% x \$100K minus \$12K  
= \$58K (or less)



# How Much Do I Offer?

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Why 70% minus repairs?

- Cost of Acquisition =  $\sim 1-2\%$
- Cost of Money (points) =  $\sim 2-5\%$
- Cost of Money (interest) =  $\sim 2-15\%$   
(Interest Rate x Time)
- Cost of Sales =  $\sim 2-8\%$   
(depends on commissions)
- Total cost of Flipping a home  
=  $\sim 7-30\%$  ( $\sim 15\%$  is typical)





# How Much Do I Offer?

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- Note: Things always go wrong!
  - Additional repairs
  - Market downturns
  - Time on market
  - All three above eat into the remaining 15% margin/profit
- Important Note:

Wholesalers need to offer **LESS** if they want to wholesale to Investors (typically 50-65% ARV minus repair cost)



# 12 Ways To Buy & Sell

## (1) Cash, Wholesaling, & Assigning

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# Cash, Wholesaling, & Assigning

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- Investor (often a bird-dog) finds a property, gets it under contract
- Acquisition Strategies
  - None - just getting a contract
  - Short-term financing
    - Cash (could even be credit cards)
    - Hard Money (Lenders that loan "on the deal")
    - Private Money (Lenders that loan on you + deal)



# Cash, Wholesaling, & Assigning

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- Exit Strategies
  - Assignment of Contract
  - Simultaneous close (hides underlying terms)
  - Flip (seasons the transaction)
- Recommended “Getting Started” strategy for new investors
- Typical Profit: ~\$500-5K or 5-10% of ARV-repairs
- Risks: Low (you can always back out)



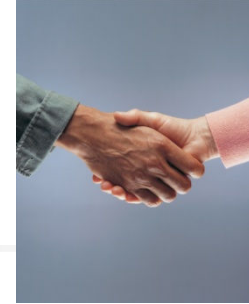
# 12 Ways To Buy & Sell

## (2) Buying Subject-To

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- Basic RE Investing Terminology
- Investing Economics – How Much Do I Offer?
- The 12 Ways To Buy & Sell RE
  - Cash, Wholesaling, & Assigning
  - **Buying Subject-To**
    - Rehabbing: Fix & Flip
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# Buying Subject-To



- One of the most powerful techniques in Real Estate
  - Buy a property with as little as ZERO money out-of-pocket
  - ***Agree (non-binding) to make loan payments going forward, in exchange for the deed – It's that simple***
- Great way to pick up rentals, renovations, homesteads, etc.
- Details can get a little complicated
- Always close at title company
  - Texas House Bill 2207 says that lender must give consent to an acquisition of a property with a lien, unless the transfer is insured by title insurance
- For long-term holds (rentals, wraps, etc.) look for
  - Fixed interest rate. Low interest rate. No balloon payments.
- For short-term holds (flips, renovations, etc.) look for
  - No pre-payment penalties, nothing else matters



# 12 Ways To Buy & Sell

## (3) Rehabbing: Fix & Flip

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# Rehabbing: Fix and Flip

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- Find a property
- Get property under contract
- Close on (buy) property
  - Cash
  - Hard-Money
  - Conventional Financing
- Renovate as needed





# Rehabbing: Fix and Flip

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- Resell for profit
- Typical Profit:
  - ~\$15-20K or 15% of ARV
- Risks:
  - Renovation costs and “the market” can swing (profit +/- 30%)



# 12 Ways To Buy & Sell

## (4) Land Lording: Buy & Hold

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# Buy and Hold (Leasing)

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- Find a property
- Get it under contract
- Close on (buy) property
  - Use conventional financing for “pretty homes”
  - Use cash, hard/private money for “ugly homes”
  - Refinance after the renovation
- Lease property to tenants



# Buy and Hold (Leasing)

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- Short-Term Benefits:
  - Cash flow
  - Depreciation (deduct over 27.5 years)
  - Tax deductions for interest, repairs, taxes
- Long Term Benefits:
  - Property appreciates with averages of 3.0% per year or more in Dallas/Fort Worth



# Buy and Hold (Leasing)

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- Typical Profit:
  - \$100K or more per home over 10-15years (location...location)
- Risks:
  - Vacancies and Repairs can cost a lot at times



# 12 Ways To Buy & Sell

## (5) Pre-Foreclosures & Short Sales

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# Short Sales

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- Find a homeowner facing foreclosure
- Get home under contract
- Negotiate contract with lender
  - for less than the current amount owed
- Buy property
- Exit Strategies
  - Resell for profit
  - Keep as rental



# Short Sales

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- Typical Profits:
  - ~\$15K (but only about 1 in 10 times) + comm
- Risks:
  - It will vary by transaction. These are VERY COMPLEX transactions involving lots of paperwork, huge time investments, and low success rates. Most of these transactions never close – you are dealing with people's credit and have a responsibility to succeed.





# 12 Ways To Buy & Sell

## (6) Bank/Tax Foreclosures & Auctions

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# Foreclosures/Auctions

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- Find a property facing foreclosure
  - They are listed by the county clerk or available from [FLSonline.com](http://FLSonline.com)
- Research liens, value, condition (drive by), etc.
- Buy at courthouse steps
  - Must be with cash or cashiers check
- Renovate as needed
- Resell for profit



# Foreclosures/Auctions

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- Typical Profits:
  - ~\$15K or ~15% and more of ARV
- Risks:
  - High – up to full investment
- These are RISKY transactions because the buyer buys properties “as-is” (usually unseen) and still has to pay off superior liens (property taxes, IRS, etc.)



# 12 Ways To Buy & Sell

## (7) Owner Financing & Wrap Mortgages

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# Owner Financing & Wraps

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- Find a property, get it under contract
  
- Close on (buy) property
  - Use conventional financing
  - Owner Financing
  - “Subject-to” Financing



# Owner Financing & Wraps

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- Sell property with owner financing
  - Require 2-20% down payment
    - as much as you can get
  - Charge a higher interest rate than that of the underlying loan (plus 2-5%)
  - Options:
    - Increase resale price
    - Require purchaser to refinance in 3-5 years



# Owner Financing & Wraps

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- Short-Term Benefits:
  - Pocket down payment
  - Cash flow (spread between payments of primary and wrapped loans)
- Long Term Benefits:
  - Receive “back end” payoff at refinance



# Owner Financing & Wraps

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- Typical Profit:
  - 5% down (pocket it)
  - \$100-500 per month cash flow
  - \$5K-20K or more upon refinance
- Risks:
  - Medium: Low-credit buyers often default and rarely refinance
- This strategy will typically sell a home FASTER and FOR A HIGHER PRICE





# 12 Ways To Buy & Sell

## (8) Lease Options & Variations

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# Lease/Option

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## **VERY IMPORTANT NOTE**

- Texas law SB629 makes lease/options **FUNCTIONALLY ILLEGAL** in most situations
- This is not a recommended investor strategy



# Lease/Option

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- Find a rental property
  - Lease your purchased property using a pre-negotiated option for the lessor to purchase said property at a set price in the future
- Sub-lease property to an end-buyer on a rent-to-own plan
  - Require end-buyer to pay a ~3-5% down payment
  - Establish a pre-negotiated option to purchase property at a set price in the future from original seller



# Lease/Option

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- Sell to tenant (within 3 years)
- Short-term benefits:
  - Pocket the down payment
  - Monthly cash flow (spread between investor's payment and the end-buyer's payment)
- Long-term benefits:
  - Resell property at higher price



# 12 Ways To Buy & Sell

## (9) Equity Partnering

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# Equity Partnering

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- You “partner” with the current owner and split the profits on the resale
- It works well when you run into a seller that has a lot of equity, the house needs a lot of work, and/or you’re close on the sales price, but not close enough
- It’s a really great deal when the seller will owner finance



# 12 Ways To Buy & Sell (10) Auctioning

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# Auctioning Strategy for Investors

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- Get a property under contract (an option) and offer home at auction to end buyers
- Set minimum reserve just above option price
  - Ex. Option at \$700K, Ebay at \$705K (min reserve)
- Assign the contract or do a simultaneous close when you get the buyer
- For high-end, this is a 100-1 shot...at making \$100K





# 12 Ways To Buy & Sell (11) Equity Holding Trusts

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# Equity Holding Trusts

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- Find a property facing foreclosure, with minimal equity, with a motivated seller
- Property is transferred into a Trust
  - This type of transfer is not recorded, so it disguises the sale
- Beneficial Interest shares (equity ownership) of the Trust are assigned to buyer, seller, investor, according to terms negotiated
- Buyer pays mortgage on a wrap-around mortgage created by a servicing company that pays the underlying mortgage
  - Buyer gets the home with owner financing
  - Positive cash flow is distributed between buyer, seller, investor, according to beneficial interest shares. Buyer's share can be held and credited toward future purchase in the lease scenario.
- Eventually buyer refinances the mortgage thus paying off the Wrap that was created
  - Profits (different between wrap mortgage and underlying mortgage) are distributed between buyer, seller, investor, according to beneficial interest shares
  - Buyer actually get's some of the "profit" back in the form of a discount on the refi
  - Seller get's to share in profit as well, essentially recovering some of this "future value"
  - Investor also gets share of profit



# 12 Ways To Buy & Sell (12) House Swapping

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# House Swapping

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- You have your house on the market, a buyer comes to look, loves it but...
  - Says he can't afford it
  - Says it would be a contingent sale – "I have to sell my home first"
- Possible Solution – House Swap
- Typically works best with homesteads, but can also be great for selling "hard to sell" renovation projects
  - Investor "trades down" to an easier project to sell current property
- Difficult deal to work out
  - Each party wants top dollar for their home
  - Buyer of move-up home may not have enough money
  - Sellers must be flexible WRT new house – location, tastes, styles, price



# 12 Ways To Buy & Sell

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# So many ways...

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