UGWA Session 1

Segment 1 - Orientation

Well, Hi everyone. This is Lance. I wanted to formally welcome you to session number one of the department wholesaling master virtual boot camp. It's my pleasure to be here with you guys for the next four sessions; four weeks as I lay out for you, your new wholesaling business. And they come at a very, very exciting time which becomes self-evident, you know, here as we get going. But I wanna go ahead and cover some, some orientation, how the program works, how the interactive webinar works 'cause this is, this is unlike the general webinars where it's me talking one way. This is gonna be two-way interaction.. So the way it works is, when it comes time for interaction and there'll be frequent points where I stop and take questions and answers. You can, you can ask questions by two means. One is you can press star six on your phone and you don't need to do anything right now because I have the line muted. When you press star six, you will come alive on the line and then you press star six you'll mute back again. Or you can always type a question in on your panel and I'll pick it up during the Q and A. So, either way, you can either type it in or press star six and even sometimes I reserve the right, even if you type it in, I may invite you on the line because I just wanna make sure I understand the question fully and, and give a complete answer.

Any questions you have throughout about your account or during the process, you can always direct to the office. Phone number is 713-476-0102. Or you can email us at clientcare@fcgllc.com. Now, just gonna jump down to this bottom bullet. Please make sure you add this client care email address to your, your address book in your inbox. Because we have some people that didn't receive the webinar links. What I wanna make sure is it's not that the emails are getting hung up sometime. So, when you put our email address in your inbox it tells your email system, I'm expecting, you know…it's okay to receive email from, from this source.

The other thing in terms of orientation, of course, every session is recorded. We record the audio, record the video. All of these slides, copies of these slides, are being provided to you. Notes, when I go to the electronic easel pad will be provided to you. So, one of the things I wanna make sure that you're aware of is because there's a lot of content that I'm gonna be providing through the, through the slides and, you know, just be assured, you'll have a copy of it by tomorrow on the resource vault. Okay? So don't feel like you have to write down every word, because you're gonna have the whole, the whole, you know, cookbook system here through the slides.

Alright, now, let me go ahead and explain what I have in mind for you. Or the desired outcome I have for each of you. Because you guys, I think that you, you've heard me up to this point, you know I always do everything with the end in mind. So, I wanna share with you the desired outcome that I've designed for, for each of you.

And there's four desired outcomes though this process. Number one, and this is very important to me, by the time we finish you are gonna possess both the skillset and the mindset for wholesaling apartments. The skillset and the mindset. Number two, you're gonna feel confident you can do it. And this one is really important to me and it's important to me because it's important for you that you feel the confidence you can do this. Because when you feel that confidence, then you'll go out and take the steps necessary to make it happen. Alright? I want to build that confidence through case studies, through examples, through the interactive process we're gonna be going through. I want you to know, by the time you finish you're gonna be feeling confident even before your finish. But this is where I'm taking you through this process.

Desired outcome number three is that through this process you develop your own personal action plan. 'Cause besides having the confidence by the time you finish, I want you to be… to know what your next step is. Now, one of the things of success for entrepreneurship or real estate is always knowing what the next logical step is. And you're gonna know those logical steps because you're gonna have an action plan of how to get started.

And the fourth desired outcome is through this process I wanted to have some fun. So, this is, this is an intense accelerated learning but I wanna have… make sure it's fun for you guys. I challenge you to keep it fun for yourselves and I invite you to make sure that I keep it fun for you, and 'cause this is really, to me this is just an amazing business. And I wanna make sure this whole process is fun 'cause if the process is fun, you're gonna retain that much more of the information. And, the ultimate outcome for the program is I want you to be able to look at the world through what I call the money goggles. To literally see the world of abundance that's out there right now of deal flow, of wholesaling apartments. I mean, this is… it's very easy to get beat up by the constant negative news by CNN. But I want you to realize and what you're gonna be seeing through this program is, this is the best time in the world to be out there wholesaling properties, because it's just raining deal flow out there right now.

Also, during this process I'm gonna be engraining and demonstrating for you the success formula that I discovered on my own. It took me, it took me five years and tens of thousands of dollars to finally figure it out, that success equals skillset plus mindset plus community. And the reason I'm reemphasizing here at the beginning because, I'm gonna teach you the skill set. Alright? That's one of the outcomes I already said. I wanna work on your mindset and transform your mindset. That's also one of the outcomes. But the community portion is gonna come from everyone on this call. You are now a community of like-minded entrepreneurs. How do I know? Because you all showed up to this event. You all have that in common that you have…you see apartments as the vehicle to institute some type of financial change or transformation in your life. Just know that about each and every one of you. I know that about you without having met you because you're here and because I'm here. That's why I'm here. And so we are now a community of like-minded entrepreneurs which means there are no dream busters here in this community. We're all going for the same thing. We're all at different paths along the process, perhaps, but we're all going for the same thing and it's okay to express our fears here. It's okay to stress our doubts because we're gonna be supported here and someone's gonna pick me up and encourage me along the way. That's the community I'm talking about. So, through this process, I'm gonna constantly encourage you to interact and know that when you volunteer to say something, you get nothing but support here. That's my job to make sure that happens. Okay?

This is a safe environment. This is a community where it's okay to say, well, I don't know how you do this. Okay, well let's talk about it, alright? That's, that's the community part of the environment that's beginning right now. Right now.

And, to help make the point, this is actually fantastic timing that we are launching the virtual boot camp tonight because, you may have heard on some of the previous webinars leading up to our launch tonight. One of the graduates of this very program, Dan Badinghouse, he was in the program back in, I think it was, October. He was in that program. Here's the testimonial he left. He said, "thanks Lance, this is a completely comprehensive course that does not leave any aspect of the business out". He closed, flipped a deal. A $69,000 flip fee on a 36 unit apartment closed last week in his very first deal.

So, this…I'm using that to begin work on working that mindset right now that mere mortals can do this. Graduates of this program have done it and now is a great time to be doing it. And through this program I'm gonna be weaving in, I'm gonna be adding in details from a deal that was just closed last week, because it reflects literally what is going on in the street, literally right now and certainly with regard to bank, to bank REO's. So, right place at the right time.

Okay, one recommendation before I get formally started is on note-taking, on note-taking. So, I just shared with you that don't feel like you gotta write down everything 'cause I'm gonna make these slides available to you. But, one of the things that I learned when, you know, I been to a lot of, lot of seminars, lot of, lot of events. And I was very blessed to have some trainers and mentors that were absolutely the best. The best, you know, I would say in the world. One of them taught me this about note-taking and I have been practicing it now for many years. When you are at an event like a live event or this event, boot camp, or any type of training program. If this is your piece of paper, the screen I'm showing in front of you, on the right hand one third, draw a line down your page. And you're gonna segregate your page into two parts. The left-hand side, when I talk tonight I'm gonna be talking about different concepts, abstracts, alright? You take your notes on the left hand side in that two-thirds portion. During this process I will assure you that actions will come to mind or very specific idea will come to mind that you can put in place right away. Those ideas, I want you to capture in the right-hand side, in the column, the one third column on the right-hand side. The reason this is very important is because remember I said, one of the outcomes is I want you to have an action plan. You're going to form your action plan out of the kernels, out of the nuggets of ideas you have on the right hand side.

So, even tonight when you're finished, you may not have written down every single note on the left hand side, but you have written down specific ideas that you can prep, take action on tonight, if not tomorrow, because one of the other things I wanted to share with you is that I wanna encourage you to leave not your desk at the end of this session until you've taken some action, some type of action. Now it can come from your notes or it can come from the field assignment I'm gonna give you. But I want you to take some action before you leave your desk. The reason I say that, the reason it's so important is that's what's gonna create momentum in your business and that's how a change is gonna begin, is creating that new habit.

We all got to where we are now because of our habits from our entire lives at this point. And so, to change our results going forward, we have to have new habits. And the easiest way, the fastest way to begin that is right now, tonight, at the end of this session. Okay? So, I'm challenging not to leave your seat, not to leave your desk …don't get up and go to the bathroom. Don't get up and go to the refrigerator, which I know your subconscious is gonna say immediately upon finishing. That subconscious is gonna try to keep you in your comfort zone. But before you leave your spot tonight, you take some action. I don't care if it's sending an email to someone, going to LoopNet, whatever, I want you to take some action because that's where change begins.

Alright. Here's the format for the training: this is a four week intensive. I say intensive because I am, I mean, I wanna… just like Dan said in his testimonial, I leave nothing out. I'm giving it to you all. The good the bad and the ugly, [INAUDIBLE], the details. I want you fully armed and fully equipped for the scenarios that pop up. So I'm gonna give you all the recipes, all the secret ingredients, it's gonna be, I'm just…it's everything, nothing held back. Feel free to ask full questions about the process.

So, during this four weeks you're having instruction from me. You have Q and A. We have live Q and A on these calls and then you have email in between the sessions. Alright? And you get 90 days after, after you graduate. But the process is also one of accountability because I'm gonna give you weekly assignments, field assignments. You're gonna receive one tonight. Now, these are not hard. So, I don't want you to… you know, I don't want your little voice already kicking in on us. But they are field assignments to get you in the groove of beginning to create those new success habits of this business. Okay? So, I'm gonna give you some assignments.

Now, if you allow me to, and if you wanna be held accountable, I will hold you accountable. Now if you tell me, no I don't wanna be held accountable, then fine. But if you wanna be held accountable, I wanna hold you accountable so that when you come back next week, the first thing we're gonna do on next week's session is talk about the field assignment. Who… give me… someone give me feedback on your experience with the field assignment. Tell me, you know, what it, what it was like. Tell what questions you have. Tell me, did you have any fear over it? And we're gonna talk about it.

Now, if you come back and say, I didn't do it, and you want me to hold you accountable, we're gonna talk about… alright, why didn't you do it? Because the reason you didn't do it is probably, could very likely be a habit that is holding you back in other parts of your life and if we can… the sooner we can flush that out, the sooner we can correct it. So, we use it as a learning experience, not as a, not as to embarrass anyone. But the fastest way to learn about our little voice and our subconscious and our mindset is to catch us… to catch it when it's holding us up, because now we know. And now we… once we know we can do something about it. So, that's why the accountability is important.

Also, active participation. This is based on… this whole program is based on an accelerated learning format, which as adults, the way we learn is by doing, participation and by masterminding and sharing with each other. That's why it's interactive. So, I encourage and really expect your active participation. Now, I'm not going to, you know, I'm not going to chide anyone for not participating but I'm going to certainly invite it. Everyone's gonna be invited to participate. And again, we're in a community, safe, safe harbor, safe environment. There's no reason why everyone shouldn't be participating. And I'll tell you, when I first started off I didn't like, I didn't like participating. I didn't like participating. I didn't like the idea of it. I didn't like the idea of it. But, what I learned and I'll share with you now, is that I learned more from hearing others speak about their experiences than everything that was working in my head. And I also learned that by talking about asking my questions, I received more insights that way. I still am part of mentoring programs, 'cause I want someone who can look at things differently than I do, tell me how they see it differently, so I can move beyond my blind spots. So, that's why active participation is so much expected with this, with this program for it to be totally successful for you.

Alright, your support resources. There's your home study system, which I'll be referring to. There's your email support at clientcare@fcgllc.com and there's also the resource vault. The resource vault is a password protected site where these recording will be put up for you. Additional materials will be made available. You'll be receiving your login for that tomorrow. Tomorrow. But you'll hear it… we call it the resource vault. Alright. The apartment Wholesaling Mastery resource vault. So, be looking for that tomorrow. And with regard to the resource vault, you're also, like I mentioned, you're gonna be receiving bonus items. There… and I'm only gonna give you materials, resources that are not in the home footage system, okay? These are gonna be extra, bonus resources that we'll be making available… they'll be done, you know, as relevant at the time with each topic as we go through the session. And then they are posted to the resource vault alongside the recordings of each session. And again, look for your password tomorrow. And but, and I… as each time I'll be telling you… with each session I'll be telling you what bonus to be looking, to be looking for. Okay? So, you'll know precisely 'cause as I teach the topic, I will give you a resource that's relevant to that particular topic.

Here's our curriculum. Over the next four sessions, this is how the program is organized. Session number one, which is tonight, we're gonna begin with how to recognize a deal. 'Cause you first have, you have to be able to recognize what a deal is before you start looking for them. So, we're gonna… I'm gonna teach you how to do that today. Next, next week, session number two, you're gonna learn how to find those deals and how to create deals. 'Cause with wholesaling, we are selling deals. We're, we're not selling property. We're selling deals. We're selling contracts. Right? Distinction, distinction.

Session number three, I'm gonna teach you how to find the buyers. I got a deal, now what? Session number three will teach you how to find the buyers. Session number four teaching you how to close that deal, how to get it done. And I wanna tell you right now, the new bar was set last week: nine business days to close an apartment deal. New record. So, we're gonna use that, that microcosm of that deal as one of showing and setting the bar for you of what's possible. The getting it done part is gonna be talking about your specific performance dashboard and the action you need to take on a daily and weekly basis to keep you focused on generating cash flow. Getting it done, in my opinion, is the most important part of the entire program. Because that's where you're gonna take what you've learned in the previous four sessions and be able to implement it on a daily basis out in the real world.

Okay, so, session number one tonight, our agenda. Because we had the orientation. This will be the the, you know, in the following weeks, in place of this orientations period we'll be doing the field assignment review. So, I've given your orientation. We're gonna have two sections tonight. One is, we're gonna begin with what I call the entrepreneurial overview. I wanna make sure we're all on the same page about entrepreneurship, real estate entrepreneurship. I have to lay this foundation. I have to make sure everybody's on the same page. That will be session one. And then session two, I wanna teach you, explain to you how to qualify and analyze an apartment deal. And actually as we part one I will wrap up with a portion of it next week. But the bulk of t we'll cover tonight. I mean, you will know tonight how to be out looking at deals, okay? You'll know tonight how to qualify these deals.

We'll have Q and A throughout the entire process. You'll see there'll be place holders. We're getting ready to have one right now, so you'll see what it looks like. And then at the end I'm gonna give you your field assignment, your field assignment. Now, you see at the very bottom of that little box, we are formally scheduled for nine o'clock to eleven o'clock pm Eastern. But, I'm not gonna…at eleven o'clock, you know, if we're not done, or if you're still, I'm still answering questions, I'm not gonna just say, you know, be like the psychiatrist, well sorry our time is up. See you next week. No. I may go over, go over eleven o'clock to make sure everyone's got it, cover all the content, answer all your questions. But what I will do, I'll respect your time. I know that you have perhaps some other commitments: family, etc. at eleven o'clock Eastern, wherever I am in the process I will stop and jump and make the field assignment, give you the assignment, so that if you need to know you can and then you can catch up. You can see the rest of it on the video or the audios or the notes the next day.

And then, and then, after I give the assignment, I'll go wrap up, you know, wrap up the session. So, I just wanna give you that, that's what? As a disclaimer or a, a warning up front. We may go over beyond eleven o'clock pm Eastern. Alright, with that, here's what a question, Q and A session looks like. Does anyone have any questions on the curriculum or the format of the program? You can either press star six to come on the line or you can just type it in on your panel. Any question on the curriculum or the format? Everyone got it? Okay. Alright.

Segment 2 – Section 1 Apartment Wholesaling Entrepreneurial Overview

Section number one: Entrepreneurial Overview and the reference to this… I'm gonna refer you to module one in your home study system, the multi-channeling home study system. Okay? And I'll be giving you assignments. I'll be giving you assignments. Well, part of your field assignment will be. I'll be telling you which portions of the home study system to be reviewing. So, oh, the other thing I should say is, don't feel like you need to go read the entire home studies system. You know, I'll be telling you which portions are relevant that you need to read. I'm gonna, you know, make it... I'm gonna dole this out in the portions you need, okay?

Alright, so this is entrepreneurial overview. Let's start here. There's four components of success. There's four components of success in real estate, entrepreneurship, for that matter, any type of entrepreneurship. These four components are represented in the triangle on your screen. The first component you need is specialized knowledge, the how-to, the how-to. Obviously we have to know, you know, the how to of wholesaling apartments. You're learning that there. The second component we have to have is marketing, is marketing. If the phone is not ringing, we don't have a business we have a hobby. And in fact, business is nothing more than marketing plus innovation. Peter Drucker said that, business is marketing plus innovation. And in our business, we have extremely simple business. It's this, we market for two things, deals and dollars, deals and dollars. And by that… When I think market for deals, we are doing, we are doing activities to identify motivated sellers. Motivated sellers. Like in Damon's case it was a bank REO, extremely motivated, extremely motivated. Other examples I have given you about a seller who just wanted to pull his cash out. Whatever the motivation is doesn't really matter, but we're looking for deals that we can get under contract on very preferred terms. That's half the business.

The other half of the business is we're marketing for dollars. And by marketing for dollars, what I mean is marketing to find the buyers. Now, if we, if we're finding deals that we wanna buy and, buy and hold onto, then by marketing for dollars I mean we're looking for private investors that allow us to buy the deal using none of our own cash. But, since this is the wholesaling virtual boot camp, in our case, marketing for dollars means we're looking for buyers. Someone who is gonna buy our contract and give us a fee and a profit for that contract. And this whole program, well, a good portion of the program, will be teaching you how to market for the deals; how to market for the dollars. As an entrepreneur, you just is simply to match-make the two. And we get paid for doing that. Phenomenal time to be doing it right now. Alright, so, that's the second component: marketing.

The third component of real estate success is systems, systems. Because we really don't have a business if we don't have systems. And by systems what I mean is people and, people and processes that are doing some of the task for us. Now, I recognize that for many of you, like me, when I started out I was a solo-preneur. I did everything. I was, you know, the CEO and janitor. I didn't really have… I didn't have a business. I had a job. Really, it was just me. It was a job. I was self-employed. Well, to make it a business, I had to evolve to where once I had some deal flow and revenue coming in, then I would bring in resources, people, to do parts of the business for me. My bookkeepers was one of the firsts systems I brought in. As I expanded I brought in, you know, a virtual assistant. Then I had a full time assistant. You know, all three I had in, you know, other resources I've brought in. So, it became a business operating without me having to be there doing all the tasks. There were systems. Many times, these systems are technology-based systems. So, we may not… you may not be starting out with these systems. I didn't have any systems when I started off. But you…When you're starting your business right now, you need to go in with a vision to add systems as soon as you're able to so that you create a business and not just a job for yourself. ‘Cause otherwise, if you create another job for yourself, you may find out that you’re working for a lunatic: yourself. Because this, this, this boss requires you to work 24 hours a day and is always on your back and always has something for you to do. So, I want you to have that vision.

The fourth component of success, and I will tell you, in my opinion, is the most critical, is the one in the heart of that triangle, it’s the mindset. By the mindset what I mean is, the ability to take action despite fear the ability to take action despite my mood. The ability to take the action in spite of the fact that I don’t feel like it today. It’s the entrepreneurial mindset. To be able to see through the challenges. And to be able to get things done when perhaps other, supposedly experts, tell me that it can’t, it can’t be done. This mindset, the entrepreneurial mindset that is the good news. The bad news is, we are not taught this in school, at least not any school I went to. We’re taught to be employees in any type of formal education, public or private. We’re taught to be good employees. We’re not taught to be entrepreneurs. That’s the bad news. The good news is, you can learn it and I’m gonna teach you. There’s exercises, there’s techniques that we do on a daily basis that allow us to literally, reprogram, recondition, rewire the belief systems and the thoughts that we’re having in our head every day, to make it more entrepreneurial driven. Where we see, literally, see things through a different set of goggles than we did as an employee.

Now, that may be hard to understand and believe right now, but just trust me on this one because I’m gonna get you there. This is the biggest distinction, biggest shift that’s gonna occur, is when you start having the entrepreneurial mindset, because then you see the world as nothing but opportunity, which is it, unlimited, unlimited.

Alright, also, since we’re on this topic. You know, in business there are two choices, you either have a high volume business or a big ticket business. For example, if you were into wholesaling houses, you know, the average flip fee on a house is five grand, three to five thousand. If you wanted to make a hundred thousand dollars flipping houses you gotta do twenty deals a year. In apartments, you add a digit to it. So, you’re gonna be doing five figure checks, so we can do fewer deals to earn the same 100 thousand dollars. Look at Manfield, $69,000 on one deal. So, I put this up here. These are the numbers we’re talking about. And I know, many times, these extra zeros scare people. ‘Cause they’re not yet… their mindset is not yet adjusted to making this kind of money. And if the idea of making $50,000 makes you feel your stomach kinda tighten up, that’s okay, ‘cause now you know. And what that just means. you just need some mindset transformation. It can be, you know, you can expand your notion of what’s possible. That all is done, okay? This all can be done. I’m gonna teach you how to do that. Alright? But if you’re feeling a little tense right now, just understand it, recognize it and know it’s just something that needs to be changed.

Alright, here is the wholesaling process. These are the eight steps to wholesaling any deal. Houses, apartments, practically anything. This I show you flip one. This is how you wholesale it. Eight steps. Now, I do want you to write these down and we will be coming back to this the entire program because we’ll be taking each of these steps and dissecting it over the next four weeks, okay? For example, tonight I’m gonna focus just on qualifying a deal. So, I’m gonna talk about just qualifying a deal. But let me step through the eight steps. Number one, the first thing we do is we have to find the deal. This process begins with deal flow. It does not begin with finding buyers. That'll come later. Write this down, it all begins with deal flow. Set aside any notion that you're gonna find a buyer. No. And why not? Because every buyer is gonna have different kind of deals they're looking for. You cannot approach a buyer and talk about a hypothetical deal when you're starting off. You need to first find a deal and then find the buyer. Now, in section three, I'll be teaching you to find that buyer, alright? Between now and then I'm gonna teach you how to find a deal. So, I have to ask you to suspend, in part, your natural tendency to say, well, I gotta have a buyer. What if I can't find a buyer? Don't worry, you'll have a buyer. But you gotta… It all begins, it all begins with the deal flow, step one.

Step two, once you find a deal, we think it's a deal so we have to qualify it. I'll teach you that tonight and once we've qualified it, step three is we get it under contract. We get it under contract. Very important step because we are selling… we're gonna sell that contract. Once we have the contract signed, step four, now we go find our buyer. We're gonna find the buyer. And step five is that we're gonna qualify them. We're gonna qualify them to make sure they can close; make sure they're qualified to do the deal. And then step six, once you're qualified, we're going to quote, assign the contract to a buyer, which means we're basically gonna say, okay buyer, I have this contract that says Lance Edwards, me, can buy the property, I will allow you to replace my name with your for a fee. So, you become the buyer, but you're gonna pay me a fee to buy my place on the contract. And we're going to be a lot of lessons around that. But that's, that's where the money is made, is assigning the contract. Step seven, once the contract is assigned to my buyer, they are gonna proceed and they are gonna do the due diligence. They're gonna close the deal. They are gonna take title. They're gonna close the property. And number eight, at closing, I get paid. You get paid. We collect our, what's called the assignment fee.

Now, you will actually see, I will give different names to it for reasons I will explain in session four. But I want you to understand, it's basically an assignment fee you're collecting. That's our profit. In Dan's case, $69,000 was the, quote, assignment fee. Alright, that's the eight step process.

Real quick. The advantages of wholesaling. If you're brand new…If perhaps you're not that familiar with wholesaling and you're fairly new to real estate, I just put them up here, because I want to make sure that you understand that this is great for newbies; this is great for experienced entrepreneurs, because my mantra, you may have heard this on some of the webinars leading up to this event tonight, is we should always be wholesaling. Always be wholesaling, because it generates chunks of cash. And even if you are a buy and hold person looking for… to buy apartments to hold onto for cash flow. In the process of creating deal flow, you'll come across deals that you don't wanna hang onto. Well, flip them, flip them to somebody else who it meets their criteria and warn chunks of cash. And use those chunks of cash to either roll it back into your business, to go on vacation, to pay off finances, debt or use as down payments on deals. So, this, you know, wholesaling… everyone should be doing wholesaling. It's a great… If you're starting off, it's a great place to start. If you've been doing it for twenty years, it's a great place to make extra money off the deal flow you've already created, you're already creating.

Oh, no license required for this, alright? None and what I'll be showing you is how you can make more money than the agents. You'll make more money than the agents. Dan's deal, 69 thousand dollar assignment fee. The agent made 54 hundred. So, he's done, I don't know, ten thousand. He made ten thousand. Ten thousand. So Dan only made seven times as much as the broker.

If you have been wholesaling houses versus apartments, here's the main distinction: houses require you, number one, to be able to usually look at it. So, you're driving around looking at ugly houses. And when you value, when you value a house, the value of a house is based very much upon the look and feel of it. As a matter of fact, there's a saying: houses are feel-estate; apartments are real estate. What that, what that me and is the, you know, the value of the house is based on the cost. For example, how much do the houses down the street sell for? What's the relative square footage? Is the carpet in this house older or newer than the one with that one with the [INAUDIBLE]? Does it have a new roof? How dated are the appliances? How big is the back yard? All these, you know, all these subjective factors that make it a, you know, quite a subjective process. It's really an art, I believe from seeing people do it. I think it's, it's, it's an art to value a house and determine and how much you might flip it for, as opposed to an apartment is a science. I'm gonna teach you the numbers tonight. It's a science with simple equations. If you're not a big science person, don't flip out on me. It's very simple math, but you literally plug in the numbers and you can determine what an apartment is worth right now and you can determine what an apartments is gonna be worth a year from now when you raise the rent. Without ever seeing it. Without ever leaving your desk. You're gonna be qualifying these deals and analyzing these deals sight unseen, sight unseen. Then you will see it… Well, perhaps if it's a wholesale you may never see it. Your buyer will see it once they have it under contract. But you're not, you're not gonna be driving around or flying around because you can be, you can be finding great deal flow from across the country.

It's all about the profit and loss statement and the numbers, which I'm, gonna be teaching you tonight. Things called cap rate, market cap rate. Is that A, B, C or D class? So, for me I'm just, I'm just… Of course you know I'm biased. Things that attracted me to apartments over houses was the fact that I could evaluate without ever seeing it. It could predict the future value. My market is the entire country and there's extra zeros on the deals. Oh, and by the way, much less competition.

Segment 3 – Section 1 (cont'd)

So, let's ask a question. Let's answer the question. I get this a lot. It's maybe in your mind right now. Okay, Lance how much can I make on a wholesale flip? What's a typical assignment fee? What should I expect? Legitimate question; very legitimate question. Let's just, let's just run through the numbers. Or let me give you a model for how to, how to answer the question. Now, let's say we're buying an apartment, and when you're talking about apartments, and when we talk about apartments, as we're gonna be talking about tonight, we talk in terms of price per door. So, if you have a ten unit apartment building and the price is $250,000, that's $250,000 per door. The reason we talk in terms of price per door is because no matter how many doors there are, we are… you are very soon gonna understand that a, you know, what is a good price per door on a property? And whether it's 10 units, 50 units,100 units, or 200 units and somebody tells you it's $21,000 per door, you're gonna know that's a good price, as opposed to having to do the math. Well, if it was ten units, that'd be $210,000. 100 units, that's $2.1 million. So, we think of it as a price per door.

So, the example I'm gonna give you right here, let's talk about a property that's being bought for $25,000 per door. So, how much should we make on the assignment? We're assigning this contract. Well, if you're familiar with agents, a real-estate agent is going to make, on the upper end, 6%. That's true for commercial agents as well. Upper end they're gonna make 6%. If they're splitting the fee, they'd make 3% commission. And on the low end, let's say someone just referred the deal, just as a discover referral sheet, they may get… If, let's say they just referred the deal, they get 1% of commission. So, if the price is $25,000 per door, then at the upper end, 6% commission equates to $1,500 per door commission. Three percent is half that, $750 per door. 1% is $250 per door. So there's the commission that you could, you know, a realtor would expect to make if they were listing the property, because keep in mind, a realtor or a broker is doing nothing but flipping the deal. Right? That's all they're doing. They're just flipping the deal themselves. They have a contract to list it and they get paid when the property gets sold. They're just wholesalers themselves. And the upper limit they make is 6%.

So, if we take their numbers per door, and let's say it was a 50 unit property, well at $1,500 a door commission, 50 units, that broker would make $75,000. If they were splitting the fee they'd make $37,500. If it was just referring the deal, they'd make $12,500. So, there's an expectation right there of how much you could make as an assignment fee just using a broker's model, right?

So, now here's the good news. As the wholesaler, you're not bound by any 6% limit or 3% limit. You're fee depends upon how good of a deal you create. That's how Dan was able to make $69,000 and the broker only made $10,000, because the broker only got 6% on the deal. This is the beauty of it. You are free… How good a deal you negotiate, which I'll be teaching you, was gonna determine your fee. There's no limitation. There's no limitation on what fee you're gonna make. It's a real question to, what is the typical assignment fee? Let me prove the point, give you a couple examples. Here's a 3 unit deal that I wholesaled, had it under contract for $201,000, sold it for $228,000. The agent made 5% commission. They made $11,000. I made $13,100. So, I made 6.4% equivalent on it. Here's a 56 unit REO. Put it under contract for $225,000. I sold it for $275,500. Agent made $13,000. I made $37,000. I made 16.4%, okay? In that case, I made almost three times as much as the agent. Both cases, I always make more than the agent. I always make more than the agent.

So, the one thing, well the one thing I wanna show you right here, lessons learn to learn, I'm gonna give you your first instruction right now. Here's the lesson to learn: I see too many students who clear a deal because they get greedy, especially on the first deal. The most important deal you will do, and I'll tell you right now, the most difficult deal, the most difficult deal you will ever do is gonna be your first deal. Not because of the deal, but because it's gonna be your first. And you're gonna have, you know, it's gonna be, it's gonna be an inner game thing. Your little voice is gonna be barking at you, screaming at you and it's gonna be new so it's gonna seem difficult, but for me and for you, the most important thing is that you close the deal. That's it. Get that first deal closed, because with that first deal being closed comes confidence, confidence that not only can I do it but confidence that I did it. And then your whole mindset will shift too, well if I can do one why can't I do three or five or ten? What kind of systems can I put in place to turn the crank and create, literally, an apartment wholesaling machine. We call it apartment wholesaling factory.

So, what I want you to do… The fee that I want you to charge… If you're out on your own, the fee I want you to charge on your first deal is 3%. Your, write this down, your first assignment fee is gonna be 3%. Now, I already know, well… what if I can make more? Fine, make it on your second deal. It's more important you close that first one. You just charge 3% on your assignment fee and move onto the next deal. That is if you're out on your own. Now, if you're working with me, you can… we'll get you more. But, but on your first deal and you're doing it solo, 3%. Just take your 3% and move onto the next one. Get that first deal under your belt so you can say you've done it, alright? Do not get greedy. Greed, I just, I see too many students talk themselves out of making any money. They end up with zero because they just end up not coming to an agreement. Alright, so 3%, that's your first assignment fee if you're out solo.

Now, real quick I wanna say this, because we were talking about entrepreneurial foundations. I'm not gonna dwell on financial freedom tonight, other than to say this. There's active income, there's passive income and there's your net worth. Active income is the income we earn from our J-O-B. Active income is the income we earn from wholesaling, right? Wholesaling pays very well, but it is active income. Passive income is where we… I call it the mailbox money. We receive that without our active involvement, that's where… That's the benefit of owning and holding an apartment. You get the passive income. Net worth is building up our nest egg. Financial freedom comes from passive income, alright? When we have more… When our, when our passive income exceeds the amount of our monthly bills, then we can leave our J-O-B. We don't need to work anymore because the passive income is doing the work for us. It's coming every month. That's why you will love owning apartments.

Now, wholesaling is active income. It generates chunks of cash, which is important and I think, critically important for many people, especially in the current economy. That's why I'm so bullish on having people get started in wholesaling, because there's nothing like having cash in the bank to have a security blanket, to pay down debt, to do a whole number of things. But my message to you is, I'm teaching you wholesaling here. You can use the home study system and listen all about passive income, but you're not bound to just doing the wholesaling. You could, you know, flip a deal, flip a deal, flip a deal, hold one. Flip a deal, flip a deal, flip a deal, hold one. So, I wanna make sure you have a full context of what the game is here. Ultimately,

ultimately you can just… you're gonna reach a point where you may say, I'm tired of active income. I'm just going, I'm just gonna live off my passive income. And then rejoice in that day. But I want you to know that these…. You've gotta have passive income to have true financial freedom. Active income gives you big chunks of cash to help get you there quicker or to stabilize perhaps a current situation.

Alright, so with that, that's the foundation I wanted to lay on real wholesaling entrepreneurship. So with them let me ask… This is, now this the time to interact. Who has questions or comments or some ah-ha moments they'd like to ask or share? Press star six or type one in on your control panel. Now this is a part where I am inviting active participation. Who had an ah-ha moment, a comment, a question? Are you guys out there? Or is this the portion where I get to go pick on people? Let's see, let's see. This is the part where either you can volunteer or be volunteered. Remember that part I said about active participation?

Let's see, Dennis White, I see your hand up, why don't you come on the line Dennis. Press star six. Let's just touch base with you. Do I have these lines set up on mute? Let's see. Oh, wait a minute. Maybe I've got the phone to being able to not answer. No sound. Okay. Hey, are you there?

Dennis: Yeah, I'm here. Yeah I have a… the, when, just about probably you last paragraph there, hold one… or excuse me flip one, flip one, flip one hold one. That's exactly what I wanted to do. That's why I'm in the program.

Lance: Outstanding, outstanding. Well, first of all, thank you for being volunteer and, and, and making your phone work. What part of the country are you in Dennis?

Dennis: I'm in Dallas.

That's right. You're in Dallas. That's right. So, your background, are you new to real estate? You've been doing it…What's your, what's your background?

Dennis: So, I did software sales through the eighties. I had my own business back in the day. And right now, I'm selling electricity.

Lance: Yep, so real estate is new for you?

Dennis: It is, definitely.

Lance: Okay, so even… have you done anything for… Is this your first real estate training or have you been through other training?

Dennis: Oh, no, no this is… I own my own house. I have a couple rent properties but nothing, nothing on this scale.

Lance: Alright, well good. Well, thank you for being our first, our first volunteer. Or volunteer anyway. So, great job. Thank you Dennis. Alright, so that's the way it's done. Let's see. I see Bruce Celini. Why don't you come online? Let's touch base with you, Bruce, real quick. Press star six.

Bruce: Can you hear me, lad?

Lance: Hey, there you are. Welcome.

Bruce: Thank you.

Lance: So, also, congratulations on being a volunteer although I think I saw your hand go up on here on the thing, so great job. And let's so, Bruce, you are… What part of the country are you calling from?

Bruce: I'm in sunny Seattle, Washington.

Lance: That's right, that's right, that's right. You told me that earlier. So, I know you've jumped in feet first with apartments here. What's your background relevant, relative to real estate?

Bruce: Well, I'm not a newbie. I was in the real estate development business for 32 years. Got involuntarily retired when my bank got their [INAUDIBLE]. And basically, yeah, I'm starting all over from ground zero.

Lance: Alright, great to have you here. So, development. Were you doing… What type of development?

Bruce: Well, we were developing and we were building apartments, houses, condos. You name it.

Lance: Always new, from scratch type development? Is that right or any rehabs?

Bruce: No. Yep.

Lance: Okay. Excellent, excellent. Were there any… Well, let me ask you this, given your background and your perspective, what, what is it about the idea of flipping apartments that you're attracted to. Or are you doing apartments in general? What is it that attracted you?

Bruce: Well, the numbers. I mean, the... I've looked at short sales, residential short sales and a lot of other approaches that people are using to capitalize on this market and you're right, the numbers on houses are, you know, $5,000 a deal and there's lot of competition and I just like the numbers with apartments. And I know the same dynamic that's creating opportunity in residential was creating opportunities for apartments. So, you know, I got used to a pretty good lifestyle and I wanna replace that. So, apartments look like they'd be a good vehicle.

Lance: Okay great. Then you're a man of my heart. You're here for all the same reasons I got started. So, welcome, welcome. Great to hear your voice. I know we're gonna see you in Dallas too and many other chances to be working together as well, so welcome.

Bruce: Yep. My, my model Lance is, I'm broke but not broken so I'm just looking for the next opportunity.

Lance: Perfect. I love that. I love that. That's right. That's an entrepreneurial mindset. I just found, I just found something that didn't give me my desired outcome. I just gotta… You know, that's all. I just learned how to not do what I wanna do. Well, welcome, Bruce. Great to have you here.

Bruce: Thank you.

Lance: Alright, one more we have…Vinny typed one in. Vinny, why don't you press star six? He typed in an ah-ha moment. Vinny are you… you're there. Star six. Hey, Vinny, how are you?

Vinny: Hey, pretty good.

Lance: Listen, you're calling. Where are you calling from?

Vinny: Pennsylvania. I'm right near Hershey.

Lance: Oh, yeah. Outstanding, outstanding. So, you typed in, your ah-ha moment was to create systems like you have to take the workload off and create true wealth. Expound on that. Tell us what you think.

Vinny: Well, I've been doing real estate now for about seven years but I've been, like the person you talked about, doing everything on their own and it's time to expand. I mean, that's the reason I like this course is I think I sent you my executive summary of a partnership I put together.

Lance: Yes, yes, yes.

Vinny: Okay. You know, I've been through about a hundred real estate deals now, but a lot of them have been residential. And I've been spinning my wheels seeing how much money I can make off commercials. If I would have id that. I probably wouldn't need your course now.

Lance: Exactly.

Vinny: So, anyway, what my plan is, I've put together this partnership and that's took me about a year and a half to learn that. And one of the reasons I like your course is, number one, you teach the mindset, which I've always been big into. Number two, your home how to raise the money, which that's the part I need right now. And number three is my next partnership, which would be [INAUDIBLE] partnership number two is gonna be doing big apartment complexes. So, that's what attracted me here. Also, I know I need to hire a bookkeeper like what you said and hire assistants. And one of my goals when this partnership is funded is to hire an assistant now to take the workload off of me. And then after that I told my wife I would hire her working for me to take some of the workload off of her. Again, that's some of the reasons that I wanna do this. But

I was just attracted to you. All the things you were saying were right in mind with the direction I was moving.

Lance: Well, excellent, and I wanna, you know, thank you for being here with the program. But I wanna congratulate you for volunteering and speaking up and for being active and then just look forward to working with you over the next few weeks. So, great job.

Vinny: Thank you, bye.

Lance: You're welcome, welcome alright listen, I want to… I know some other people raised their hand and I wanna… let's go ahead and continue this because I wanted to kinda get a sense of who's in our group here. We have a fantastic group. Kevin, I see you've got your hand raised, you've got your hand raised which by the way guys is either feel free to just press star six and call the line or there is a feature on the webinar where you can raise your hand and I can see it here. Kevin, if you wanna press star six on your phone. Shavon, I see yours as well. I'm gonna get to you here in just a moment. Kevin you there?

Teresa: Hello

Lance: Yes, is that you Kevin?

Teresa: Hello, this is Teresa.

Lance: Hi Teresa, how are you?

Teresa: Good. This is Teresa Brown. I'm calling you from Montgomery, Alabama.

Lance: Alabama. Welcome, Teresa. So do you have a ah-ha moments, a question, a comment?

Teresa: A little bit of both. I had a question. I'm kinda getting ahead of our training but when you reach that point I was interested in finding out, when a broker doesn't list the price for the apartments, what does that mean? Or if the broker says the price is gonna be based on the market.

Lance: Yeah, that's a great question. I want you to hold that one Teresa, until next week.

Teresa: Oh, okay.

Lance: That's a great question. That's a great question. So, Teresa, what's your background in real estate? Have you done… Are you new to real estate? Have you done houses? What's your background?

Teresa: I'm relatively new to real estate. I have a commercial property that my business is in but I'm new to commercial real estate investing.

Lance: Alright, outstanding, outstanding. Well, it's a pleasure to have you here and then you for asking a great question. But make sure, put it down and give it to me first part of next week.

Teresa: Okay. Thank you, Lance.

Lance: You're welcome. Great to have you here Teresa.

Teresa: Thank you.

Lance: Alright, Kevin, are you here on the line? Nope. Okay, Shavon can you press star six? Shavon are you there? Star six. You already typed in a message here to me. Shavon had an ah-ha moment.

Shavon: Hello, can you hear me?

Lance: That's you Shavon?

Shavon: Yes, it is.

Lance: How are you?

Shavon: I'm doing well, thanks. How are you Lance?

Lance: I'm fantastic. Great to have you back. Great to have you back.

Shavon: Thanks.

Lance: And you typed in a comment. Why don't you tell everyone what your ah-ha moment was?

Shavon: My ah-ha moments is that the future is now. I just think I'm just ready to move forward and start, you know, focusing on getting really involved in commercial real estate and apartments. And, you know, just getting things going. 'Cause this is something I've wanted to do for quite time. So, for me, it's just a matter of finding the right time, the right vehicle in order to move forward. And I guess the thing for me, this the right vehicle.

Lance: Outstanding. Outstanding. Well, it's great to have you again in the program and also congratulations for stepping up and sharing. I really appreciate that.

Shavon: Oh, thanks.

Lance: Great job. Great job. That was Shavon, outstanding. Now Lewis, Lewis has an ah-ha moments. You can press star six. Lewis, are you there?

Lewis: Hi Lance. Can you hear me?

Lance: Hey man, how are you?

Lewis: Good, good. You know, just the ah-ha moment for me was when you showed some of the assignment fees you've done. Especially that 3 unit. It might not fit our criteria as what you teach, but it might fit somebody else's and that'd be perfect, you know, flipping.

Lance: That's is a great... That's a great one. That's a great one 'cause let me just, let me go back here for a second 'cause… Let me go back to that example 'cause he's, Lewis noticed this. Okay, if on your screen do you see the example assignment fee? Let me make sure you guys see this. Okay, yeah, there it is. The three unit, now that property I put under contract for $201,000. That's whatever it is, $67,000 per door. Well, I'm getting ready to teach you guys just here in a moment, we, we don't wanna be paying more than $25,000 for an apartment. So, $67,000 a door, well, Lance that doesn't meet your criteria. Well, I'm gonna explain the difference here in just a few minutes. But this is a property that's not a cash flow property but it was in a market that was appreciating, a yuppie and kind of area and it didn't, it really didn't, it didn't excite me to buy and hold. So, I just put it under contract and flipped it. And then, what'd I make? $13,000 on that deal. Didn't meet my criteria but it met someone else's criteria. So, Lewis, you're spot on. Ad I will tell you guys, I started off as a buy and hold guy. I mean I had this, I had this… All I would do is buy and hold. If it didn't meet my buy and hold criteria I would throw the deal away, literally. Throw the lead away. And then one day, I get an inspiration that says, hey dummy, these deals may not meet your criteria but they may meet someone else's criteria one you flip them to them.

Lance: And that deal right there, you know, flipped. And that $13,000 I would have thrown away until I had this, you know, epiphany. My own ah-ha moment, always be wholesaling. And that's, that's the thing I'm gonna leave you guys with. Not leave you guys with, but I wanna make sure I impart this to you is always be wholesaling because it generates nice, you know, thirteen thousand dollars is a nice chunk of cash to get. So Lewis is very astute. I'm glad you picked up on that. Excellent, excellent, excellent. So, anything else for you? Are you… Lewis is actually a pilot. Are you on the road right now?

Lewis: No, actually I'm home tonight.

Lance: Well, good, good, good, good. Great to have you here. Great to have you in the program.

Lewis: Thank you.

Lance: Very, very astute. Very, very astute.

Segment 4 – Section 2, Part 1 Qualifying & Analyzing Apartment Deals

Alright, section two. The reference… this is actually module two in your home study system. Alright, that's the reference is module two. So, to begin, when it comes to apartments or for any type of commercial property, there's only two terms, just two, only two terms you need to understand.

The first one is net operating income or the acronym NOI. You'll hear it as NOI. Net operating income is simply the revenue minus the expenses. Now my revenue, that's primarily the rent that's taken in. But it also could include the laundromat revenue, you know, maybe you've got some vending machine revenue. But it's the… And this is on an annual basis. All the revenue you've taken in, okay? Expenses is everything, every cost to operate the property. The property management fee, the insurance, the taxes, the utilities, maintenance, the lawn, everything to operate the property is an expense with one exception: the mortgage service. The mortgage payment is not included as an expense. It'll come later, alright? We do not include the mortgage payment, also there was a debt service, the debt service. We don't include the mortgage payment as an expense. But everything else is an expense. Everything else is an expense. So that's NOI. That's the first term you need to understand. Net operating income. It's your net, it's your net profit before paying the mortgage payment, okay? The net profit before paying the mortgage payment.

Now the second term is cap rate, cap rate. And cap rate is simply a measure… It's like the return on investment, return on investment. And it's a percentage number the cap rate, the formula for it is the one I'm showing on your screen. You take the NOI, the net operating income, and you divide it by how much you're buying the property for plus how much rehab you're gonna put into it. Alright? I'm gonna give you an example in just a moment. But that's the formula, cap rate equals the NOI divided by your purchase price plus your rehab cost. And you multiply it times 100 % to put it on a percent basis. Now, these formulas work across all commercial properties and in all cities. These are the… I don't care what market you're in, if it is a commercial income property, they always ask, what's the cap rate on the deal? Or what's the cap? Okay. Cap rate is the single most common denominator of all commercial income properties.

Let me give you an example. Here's the example, it's a 10 unit apartment; it's 90% occupied. The average rent is $500. The expenses are $27,000 per year. And the mortgage is $21,000 per year. Okay? Now, the question becomes, what is the NOI? What's the net operating income? Well, here it is. Let's put some numbers to it. Okay, remember NOI equals revenue minus expenses. Well, the revenue, this is the actual revenue. I have 10 units times $500 per month rent, times twelve months per year, times 90% occupancy. Right? Because not all of them are occupied, so I gotta change my occupancy. So, I take in $54,000 per year revenue. My expenses, well, up above I said the expenses were $27,000 per year. So my net operating income is the revenue minus the expensive. So, $54,000 minus $27,000 is $27,000 per year NOI. And again, that NOI is the income before I pay the mortgage. Alright? Because expenses do not include the mortgage payment. Alright, so that's the NOI.

Let's take the next step. Let's look at the cap rate now. Same 10 unit property. I've put it under contract for $220,000. I'm gonna buy it. I have a contract, which says I can buy it for $220,000. Ten units. And requires zero dollars in rehab. What is the cap rate? Well, again there's the formula. The cap rate equals the NOI divided by the purchase price plus the rehab cost. So, the cap rate is the $27,000 NOI divided by a purchase price of $220K and zero rehab. And the multiply it times 100 %. So, it's a 12.2% cap rate, which means, if I paid all cash for this property… If I paid $220,000 cash, my annual return would be $27,000 a year. So, I'm 12.2% of my $220,000. That's what the cap rate tells us. And, you know, the higher the cap rate, the better the deal because it has… The better the deal. The higher the cap rate the better the deal. And when buyers are buying property, they're not buying the property, they're buying a cap rate. They're buying a return on investment. They're buying a cap rate.

So, let me build upon this. Oh, I need to add one other thing: what's the price per door? Remember, I said everything is always in terms of per door? Well, the price per door is $220,000 to purchase it. I have zero rehab, divided by 10 units to I'm… My purchase price, my price per door is $22,000 per door. We always talk in terms of per door, 'cause remember, a price per door is independent of how many doors I have. And cap rate is independent of how many doors I have. They are, they are size… They have nothing to do with the size of the property, cap rate and price per door.

Now, that's the two terms, actually it was three terms, I guess prices per door, the third term, you have to understand. You've got NOI, cap rate, price per door. So, what makes a good deal? What's the criterion for a good deal? Well, a good deal is when the cap rate that we're buying it for is greater than what's called the market cap rate. And I'm gonna explain that. But this is, this is our, this is our criteria right now. Now, I'm gonna give you the formal criteria and then I'm gonna give you shortcuts to it in a few moments. But, for any market, if you're… If Kevin is in LA or Teresa's in Alabama or Bruce is in Seattle, the market cap rate will vary in every one of those locations. If they have a deal in every one of those locations, the market cap rate will be different. But as long as they're buying the property at a cap rate higher than the market cap, they have a deal. So, let me explain that. Let me explain that.

So let's stay, let's stay with the same 10 unit example. Remember, I said the cap rate… We were buying it at a cap rate of 12.2%. Well, let's say I'm buying it in Houston. And let's say the market cap rate of 8.5%. And let me… When I say market cap rate, the market cap rate simply means, what is the, what is the… What will the market expect the cap rate to be in this submarket? What would, what would a retail buyer, what cap rate are they expecting to get if they pay market prices in this market? Well, 8.5% means most buyers that are, you know, not, that are retail driven, most buyers are willing to accept 8.5% cap rates in this marketplace. The prices are set such that the market cap rate is around 8.5%. That's what the market cap is. It just means, what's the general market willing to, willing to accept? So, in this example, the market's willing to accept 8.5%, but we have a deal at 12.2 % cap. And because our cap rate that we're buying it at is greater than the market cap, we got a deal. They got a very good deal. Because the bigger the spread between our cap rate and the market cap rate means more profit for us, and the more attractive the deal's gonna be to a wholesale buyer. Because our job put into a sentence is the one I've shown here, as wholesalers we generate value and earn profits by finding and offering properties at cap rates greater than the market cap rate. There's our… That's our business, right there. That one sentence. We put properties under contract at a cap rate that's higher than the market cap rate, which means, the other way of saying it is, I get low prices. Because the lower my purchase price, the higher the cap rate. They're inversely, they're inversely proportional.

So, the lower the price I get on this contract, the better my cap rate is gonna be. Alright? And I… This is... It takes… You gotta kind of wrap our mind around this. We're gonna keep going through the examples until you get comfortable with this. I'm gonna have you in the field assignment looking at it as well. As I lower my price, as I lower my purchase price, my cap rate goes up. Right, because the cap rate equals the NOI divided by the price? The price is in the denominator of that equation. So as the price goes down, the cap rate goes up.

Now, I gave you the example. I've got Kevin in LA. I've got Bruce in Seattle. I've got Teresa in Alabama. And the market cap rate can vary. The market cap rate will not only vary by location, but it will vary by class of property. And so I need to define for you the different classes. There's four classes: A, B, C and D of any type of commercial property. You'll see it on office buildings. Any kind of a commercial income property is a class A, B, C or D. Now I'm gonna give you the formal definition and then I'm gonna give you the practical definition for apartments. The formal definition of class is really based upon the age of the property. Newer properties are the class A stuff. Less than ten years old. B properties, the formal definition is ten to twenty years old. C properties are 30 to 40 years old. D class is the stuff that's, from an apartment standpoint is war zone and D means don't do it. D means don't do it. Just don't get involved with D properties. It's the kind of place where you wouldn't dare get out of your car. You might get mugged, shot, you know, whatever. We're not, we're not gonna be doing D.

Now, I'm giving you the age, the formal definition but I want you to forget that. Now that I've taught it to you, forget it, because it can be misleading for apartments. What is more important to determine the class of an apartment is how, what rent level a one bedroom rents for. Because this is a telltale across the country, across the country. A class… Let's just start with a class C. 'Cause we're gonna be dealing primarily with class Cs and Bs, mostly Cs. Because they make, they're actually the best cash flow properties and there's more value places, which I'll be talking about. But the one bedroom rent on a class C across the country is between $400 and $450. One bedroom. On a B class, it's gonna be between $500 and $600. And on an A it's gonna be $600 and above. They could be, you know, $1,200 depending upon the area. But Cs are gonna be in a pretty narrow range.

So, we're gonna use… When you call me with a deal or when you go do your filed assignment this week and you go to LoopNet, and you're looking at the deal, you're gonna look at the one bedroom. If the one bedroom's $425 you can pretty much assume it's a class C property. If the one bedroom's $550 on a one bedroom, you can pretty much assume it's a class B property unless it happens to be all bills paid. And we'll talk about that later.

So, now, the market cap… Remember I said, the market cap will vary with the class. A class C, the market cap for class C will be between 8 and 9 % and right now it's probably like 9% in this economy, more like 9%. The market… Which means, on a class C property, for example in Houston. The market cap in Houston right now is 9 %. If someone's coming into this market to buy a class C property and they're just an average retail buyer, they're gonna buy at a price that's gonna yield a 9 cap, a 9% cap rate on the property. Okay? That's what the market cap means. A B class is gonna have a lower market cap. It'll be between 6 and 7 % and A will be between 4 and 5%.

So, the question is why does an A have a lower market cap than a C? Why would someone accept lower market cap on an A than a C? Here's the reason why, remember, cap rate is a function of the net operating income, how much income does the property produce? Someone who's buying a class C property is buying that property because they want income. They want cash flow. They know there's not gonna be any, you know, not very much natural appreciation in that market because it's an old, an old market. On the other hand, an A property, which is new is gonna be in a more prime real estate location and people are buying more for the land value than they are for the cash flow value. It's more of a speculative play. Somebody that owns class A property is anticipating appreciation. Someone who is buying class C property is not expecting the land value to go up. They're expecting the cash flow to be good. And because the cap rate is based more upon income, class C has higher market cap rates, which means they'll be looking at it one an A property, because it has a lower market cap rate, buyers are paying a higher price per door for an A property than they are for a C.

Now, I'm going… Let me do this. Let me, let me pause here. Does anyone have a question on cap rate? I wanna make sure this makes sense to everyone. Anyone have a question on cap rate? 'Cause I know this is, you know… Again, cap rate is inverse. It moves in the opposite direction of price. As the price goes down, the cap rate goes up. No questions? Everyone good? Alright. Excellent, excellent.

Okay, so, let's take this the next step on cap rates. And that is this: it's what's called capping out a property. This is how money is made, capping out a property. And I don't care if you're dealing with class A, B or C, this is why people get involved with commercial income properties is called capping them out. And go back, remember the formula I got here on the top of the screen. The cap rate is the NOI divided by the price, okay? Well, you take that same formula and you flip it around, the price or value of a property is the NOI divided by the market cap rate. Right? I just took that same formula and go back to a little bit of algebra and you just flip it around. The value is the NOI divided by the market cap rate. This formula, this simple formula right here is how, in Dan's case, his buyer is gonna make several hundred thousand dollars in a short period of time by literally capping out his property.

Let me give you an example. Let's show you the same 10 unit property, the same 10 unit deal. Remember it had an NOI of $27,000 per year? And remember I said, let's assume the market cap… What if I just tell you the market cap is 8.5%. Well, that means I can determine the value of this property. I still haven't seen it. All I know is the NOI is $27,000 and the market cap's 8.5%. So, what's the retail value? What would the, you know, what would be the market price for this property. Well, this is the value. You have that formula I just showed you. The value is the NOI divided by the market cap rate. So, the value is $27,000 divided by 8.5% is $317,000. That's the market price, that's the retail value of that 10 unit property, $317,000 or, you know, a little over a little over $31,000 per door. Well, recall, I'm not paying $317, so how much free equity do I have in this deal. Well, the free equity is the $317,000 value minus the $220,000 I have it under contract for. So, literally, I have free equity of $97,000 because of the fact that I negotiated the price of just $220. That… this shows you… You're right, I'm buying it at a cap rate of 12.2%. Remember I said we wanna get… Buy a cap rate higher than the market cap. Well, this shows what happens when you do that. There's $97,000 of equity free and clear above what I'm paying for the property, which is equity that I can pass onto my buyer when I'm selling them a deal, which I'll talk about that a little bit later. So, that's what I mean by capping out. And that… When I learned this phenomenon, it just, it just really blew my socks because this is how you can literally analyze… This is why I say you can predict the value of an apartment without ever seeing it. You can predict the value today and you can predict the value in the future. Okay, when I talk about value plays, I'll be showing you another way to create this free equity.

So, let's recap. Here are the formulas. This is, this is all the formulas you need right here, okay, this is it. This concludes the… any, any formulas. So, NOI is revenue minus expenses. Expenses do not include your mortgage service. The cap rate is the NOI divided by the price plus the rehab. The value, if you take that same NOI formula, the value is the NOI divided by the market cap. The market cap varies with the city you're in and whether it's a class A, B or C or D property. For example, Kevin's in LA. I'm in Houston. The market cap for a class C property in Houston, Texas today is 9%. If you go to LA, class C, the market cap for a class C property in LA is probably 5%. So, 5% in LA is 9% here. Why is that? Why would there be a difference? Why would the market be willing to accept a lower market cap rate in LA? Or, another way of saying it, why would the market be willing to pay more, a higher price per door in LA than in Houston, Texas? Because in LA, people are more interested in appreciation of the land. There is no more land in LA. So, they're buying property with the expectation the land value will go up. So, they're willing to pay a higher price per door because their return is not gonna come so much from income. Their return is gonna come from appreciation of the land. That's why they're willing to pay a higher price per door. That's why they're willing to accept a lower market cap in LA. And next week I'll be showing you how to deal with that when it comes to flipping.

Final point on our recap, here's how we, here's how we find a good deal. This is always the rule, we buy it at a cap rate higher than the market cap. That defines a deal. And the bigger the spread between our cap rate and the market cap, the better the deal we've got and the more money we make. Aright, so with that, now who has… This is a formal Q and A break here. Who has questions on that part? Let's see, we had Shavon. Bruce, I see you had a question. Looks like you answered it yourself. And he said... Bruce had asked, don't caps vary wildly from say San Francisco to Oklahoma City? Yeah, that was…I think that was coming out in the same point I was making that explanation. Absolutely.

Shavon, you had a question, where did you get the $220,000? That was the offer price I made and I'm showing you how to do that in just a moment, just a moment. But basically… I'll just show you in a moment. I'll show you the actual process. It's actually the next step. Anybody else have a question. Press star or type one in. Everyone good?

Alright, so, let continue on this, 'cause Shavon's question is a great segway, oh, someone on the line?

Teresa: Yes, Lance, this is Teresa again.

Lance: Hi.

Teresa: I have a question.

Lance: Yes ma'am.

Teresa: How do you usually find your market cap rate? I mean, do you ask brokers or do you try and look like on LoopNet for a similar property, unit, class?

Lance: Great question. Great question. The easiest… both, both ways. But the best way is to ask a broker in that locality.

Teresa: Okay.

Lance: And I would ask three of them and they may give you slightly varying answers. Ask the brokers. When I, when I talk about… Now, I can give you a script for talking to brokers, but the best source and the easiest source is asking the brokers.

Teresa: Okay and then I wanted to ask you a little bit about talking to the brokers, but that might be coming up also. But if you start talking to a broker and they start trying to qualify you in terms of, we know we're wholesaling, but if they're thinking you're gonna be an end buyer and they wanna find out how you're planning on purchasing the property and the start trying to qualify you. How would you get around dealing with that?

Lance: We're gonna talk about that next week on how to find the deals. Great question. And as far as we… It's all anticipated for you.

Teresa: Okay. Great, Lance. You can see I'm so excited.

Lance: This is what happens. If you were in front of me I would be able to see your body language. I could see, you know, you getting ready to jump out of your seat. So, I understand, this is not, this is not the first time I've experienced this. That's okay.

Teresa: Okay. Thank you Lance.

Lance: Alright Teresa, keep asking. I love the anticipation so…

Teresa: Okay.

Lance: Alright. Thank you. Alright, let's see. Vinny sent in a comment, the reason I love commercial is I will know the value, unlike residential and Vinny that's spot on... that's what just… that's what gets… I love that. I love the ability to predict the value today, not predict the value, but know the value today and predict it in the future without ever seeing it. 'Cause it's just… The process I showed you is it. That's' how you analyze any deal across the country so great, great insight Vinny, thank you. Someone else on the line? Okay, let's make sure no one had their hand raised real quick. And Chuck had a question, are cap rates harder to determine when the market is slow? No, no. They will vary. They will move, but you just ask brokers. I'm just reading a report today that a student sent me on how, you know, what marketing cap rates are doing in different markets. So, they're just, they don't move that fast. So, you can always ask brokers. Always ask brokers. I will tell you that in a, in a recessionary economy, as prices have come down, market cap rates have slid up. Last year, or eighteen months ago in Houston the market cap was 8. Now it's 9, because prices have come down. But no they don't… The ability to determine cap rate does not change with the economy.

Segment 5 – Section 2, Part 1 (cont'd)

Alright, before I tell you how to make, create your offer price, I promised you a shortcut to qualifying a good deal, remember, the rule is always cap rate has to be higher than the market cap. Well, let me give you an even shortcut for this. For class C, if you're in a high, a high cap market like Houston, then you're looking for, a class C, you're looking for a price per door of $25,000 per door or less including your rehab cost. For class B, it's $30,000 per door. So, when you're looking at a deal… If you're driving down the freeway in Houston and a seller calls you and they tell you they have a 10 unit deal that requires no rehab and they'll sell it for $240,000 total. Well, you do your math real quick, you say $240,000 divided by 10 units, that's $24,000 per door. Well Lance says I need to look at things that are $25,000 per door or less. This might be a good deal. I guess I should follow up on this one. Boom, that's how it's done. It's that straightforward. Now, that's in high market cap areas like Houston where you got like a 8, 9% market cap area.

Now, for class B, it would be a little bit higher, 'cause remember you're gonna pay a higher price per door for B and have a lower market cap. But this shortcut… Now, you're not gonna write a contract based on this guideline of $25,000 per door or less, but this is just your quick phone screen. I talk about being able to do it in ten minutes or less just through a conversation determining how many units they have, how much they're asking for it, how much relative rehab it might take, and then figure out the price per door. If it passes this first screen then we ask them for more detailed financials and I give you a script for that next week. But this is your shortcut to qualifying good deals. Okay? This is the shortcut.

So, let me show you an example. Let me show you an example of Dan's deal. This is the one he closed last week. Let me show you how strong a deal he had. It was 36 units. It was class C. Less than 50% occupied. It needed $150,000 rehab. That's approximately $4,000 per door. Dan put it under contract for $181,000. That's $5,000 per door to buy it from the bank. He sold his contract to his buyer for $250,000, which is $7,000 per door. So, Dan's assignment fee is the difference between the $250,000 he sold it for and the $181,000 he had it under contract for, so that's where the $69,000 assignment fee came from. Keep in mind, the broker made 6% on $181,000, so that's like $10,800. Dan made $69,000.

Now, to the buyer, the all in price to the buyer… All in means, what's his price to buy it plus his cost to rehab it? You add them together, that's the total amount of money he'll have in the deal. Well, the buyer paid $250,000 to buy it and he had to put another $150,000 into it to rehab. So, he's gonna have $4,000 for rehab per door, plus $7,000 per door to buy it. His all in price is $11,000 per door. Now, I just showed you that, in general deals… A class C property, if we can get it for $25,000 per door or less, including rehab, it's a good deal. This buyer got in for less than… for $11,000 per door. This is a very formal term for this in the industry. The jargon is smokin' deal. And that's why it was such a great deal, that's why the buyer was able to move very quickly. That's why the buyer was able to, you know, put up non-refundable earnest money, which we'll be talking about. And that's why, you know, everyone was motivated to get this thing done in 9 days. So, the way Dan was able to size the deal up so fast, because when he was first approached by the broker, the broker said the bank will let this thing go to a buyer who can close in two weeks. They'll let it go… First time he said, they'll let it go for $175,000. And when we first heard that, that's less than $5,000 per door. They told us the rehab was $3,000 to $4,000 per door. So, we were liking at it, you know, ten thousand per door all in, which was an absolute no brainer. And the immediate instructions were, tie it up, get an offer on it and get this thing under contract so we can go then check it out. That's how fast you can size them up. How fast you can size them up. So, that $25,000 per door rule, for class C, is pretty much universal in high market cap rate areas.

So, let's look at the cookbook, just review. How, how do we do a deal analysis? I just showed you the, I just showed you the formula, the terms to us. Well, I wanna show you a one page sheet to lead you through the process. It's called a deal analysis sheet, alright? Now, this is the… When it comes to deal analysis, this is the recipe, the cookbook, I call it. Here's how you do it. It's very straight forward. First of all, let me go to the deal analysis sheet. Let me show you this. This is actually in your home study system. Let's go… Here's one right here. Okay. Alright, just gonna scroll so you guys can see it. Okay, so the apartment deal submittal form. Now, the head it says… At the top it says fax cover sheet, so when you want us to review it, you fill this sheet in and literally send it to that fax number and we review it, critique it for you. That's why it says fax cover at the top. Apartment, let's go here, apartment deals, the middle form. This is the one page form that you use to analyze a deal and you do it by collecting data from their financials, the profit and loss statement. And you're gonna look at it to analyze the revenue and analyze the expenses. You look on the left hand side, let's see if I can get the marker to work here.

This left hand side over here is about the revenue. Alright, because this shows the unit mix, which is the mix of one bedroom, two bedrooms and three bedrooms. So, if you've got, you know, 10… this marker doesn't work very good. Ten one bedrooms and they're at $400. Fill it in here. Sorry, that marker's… this is one, not a good one but… So, you're monthly rent is $4,000 for those 10. And you do your analysis. You're gonna come up with your total monthly rentable income, multiply it times twelve, it gives you a total of gross yearly rentable income. Add the laundry income, and that's gonna give you something called the total gross scheduled income, total gross scheduled income, which is how much… Total gross scheduled income is simply how much potential income there would be if the entire property was full and everybody was paying. That's what the gross scheduled income is, the 100% theoretical. Out of that we subtract what their vacancy is, right there.

Now, one of the rules I'm gonna tell you right now when you're filling this sheet out. And you're analyzing a deal, we only make offers based upon actuals. We never base... We never make offers based on pro forma. Pro forma means predicted or future value. You know, we require… We're gonna look at the actual information. So, if their vacancy is 20%, we put in 20% vacancy. Now, they might say well, you could get it to 10% if you did this, this and this. Fine, you do those things, you get a ten percent vacancy and then I'll look at your numbers. But until then, you're vacancy is 20%, so I'm using 20%. In that vacancy row right there, let me… It says 10%. What that means is, we never budget anything less than 10% vacancy. We never budget anything less than 10% vacancy. Even if they're operating at 5% vacancy, I want you to use 10%. If you're operating at 15%, I want you to use 15%. So, you never do anything less than 10% because we're gonna use actuals, use actuals.

The right hand side… If the left hand side is revenue, the right hand side is expenses. And we're gonna fill in the information from their profit and loss statements. What are their taxes? What are the insurance costs? What are the water and sewer, trash, electric, management fees, etcetera, etcetera? And you're gonna get the total operating expenses at the bottom. Let me get this marker to work. Once you have total operating expenses, they are going to go over on the left hand side. You're gonna take your GSI, which would be here, subtract the vacancy, which is here. Subtract the operating expenses, which is here. And that gives you your NOI, right there. And then once we have the NOI, we can determine the cap rate by… let me get this marker… by taking the NOI and dividing it by our offer price up here at the top plus the rehab cost right here.

Now, in the rehab, you're gonna get that from talking to the broker. We'll talk about that next week, how you get that, but that's, you know, that's really the information. And that's how you analyze a deal, by filling in this form. This is… but let me go back over here to this screen. The recipes, the important ingredient in the recipe is we only buy on actuals, not pro forma. Now, they wanna sell us on pro forma because it looks better, but we're only gonna buy on actual. We're gonna pull the data to put into this form from what's called the setup sheets. Set up sheets are simply… And you should get an example in your field assignment this week... the setup sheet is what you're gonna see on LoopNet. It's gonna be a one or two page summary which is gonna give you the financials. If it's not on the setup sheet, then you're gonna pull data from two things. You're gonna ask for a rent roll and the profit and loss statement.

The rent roll is the thing that says, if there's 50 units, and here's apartments 1 through 50, who lives in each one and how much rent we're collecting, and which ones are vacant, because that tells you the revenue. It tells you the unit mix and the revenue. The profit and loss statements tell you all the expenses, have line items, every expense from the past twelve months. And we take the information and we literally take it off those rent rolls and the profit and loss statements and we map it onto this one page, the analysis sheet. I'm gonna have you do it as an assignment, because after you've done three or four or five, it's gonna become very second nature to you. I want you to go through the process so you get used to the numbers.

Alright. Now, a couple more points here. The question always comes up, how do I know the data is correct? How do I know they've given me all the information? How do I know I'm not missing information? When I look at these deal sheets, these numbers are all just numbers to me. They're just, you know, they're just… I don't know what they mean. It's a great point. And I'm gonna give you the single most important ratio and it's actually more important than cap rate, because if this ratio is wrong, your cap rate is gonna be wrong. I'm gonna give you a ratio right now that's called the expense ratio. And this is a simple ratio that you're gonna use, that's gonna tell you if the numbers are correct, alright? And, when you know how to use this ratio, it's also gonna tell you how to analyze the deal even if you don't have all the numbers. Even if you're missing data.

So, this expense ratio is this. Let me go over it here, first of all. Back to our deal sheet. On your deal sheet, I'm gonna circle it right here, this box right here which says total operating expenses divided by total gross scheduled income. That's your expense ratio. You determine that by, you add up all the expenses right? You add up all the expenses, you come out with your total expenses. You're gonna take the total gross scheduled income over here to the left, divide expense… Sorry, that pen's going wild, going crazy. Divide your total operating expenses divided by your total gross scheduled income. That's gonna give you a ratio, 40, 50%. So, what should that ratio be? Let's go back to the slide.

I want you to look at it two ways. First of all, there's a national average column I'm showing you. If the property is not all bills paid, the national average for expense ratio is 45%. If the property is all bills paid, which means the landlord pays the electricity, then the average, the national average is 55% for the expense ratio. Now, if you happen to be looking at proper deals in Houston, which is very popular right now, I want you to add 5% to those two numbers because our expenses are higher in Houston because we have to pay for two things. We have higher property taxes and we have to pay for something called hurricane insurance, being on the Gulf Coast. So, if you're looking at a property in Houston that's not all bills paid, then your expense ratio is gonna be 45 plus 5 for 50%. If it's all bills paid, it's gonna be 55 plus 5, or 60% for that expense ratio.

Now, let's say you're doing an analysis. You're looking at the deal sheet. You follow the instructions. You calculated the expense ratio and you've come up with a number like 35%. So, you're expense ratio is less than the national average of 45%. What you do at that point is you simply raise the expenses until you're expense ratio is 45%, because I can assure you, they may be operating at a 35%, but you won't, because they… If they're out… If they're reporting 35%, I will bet you they were self-managing the property, so they didn't have to pay a property manager. They were doing it themselves. Maybe they were doing the repairs themselves. So, again, if you're expense ratio is lower than the national average, I want you to bump up the expenses until that hits the national average and then complete your analysis of coming up with your net operating income and your cap rate. Now, with that, there's one more thing I wanna show you. Now, we're coming back to Shavon's question, how do I know what to offer?

Segment 6 – Section 2, Part 1 (cont'd)

So, this final part: the analysis of purchase offer steps. This is the cookbook. This is Shavon's question. How do I know how much to offer? She asked, how do I know to offer $220,000? Here… I need to explain it to you for the two most common scenarios. If the occupancy of the property is greater than 60% or less than 60%. If it's greater than 60%, we're gonna consider it stable occupancy. If it's less than 60%, we're gonna call it quote, low occupancy. Alright?

So, let's look first of all at scenario number one. How to determine your offer price. Here is the cookbook. Four steps to it right here. Number 1, we take our deal sheet and we determine the net operating income on actuals, always on actuals. Number 2, we determine the rehab cost. And we're gonna determine that mostly by asking the broker. I'll give you the script for that next week. Number… Step number 3, then we're gonna decide what cap rate do I wanna buy this property at? 'Cause remember, I always have to buy it at a cap rate higher than the market cap. So I need to decide what desired cap rate I wanna buy it at. And then step number 4, the formula that I use. MAO means the maximum allowable offer. It means the maximum offer I'm willing, you know, willing to buy it for. Anything less than this maximum allowable offer is even better. The MAO is gonna be my NOI, net operating income divided by my desired cap rate minus my rehab cost. And I'm gonna give you an example, so don't worry. But that's… That's the four steps right there. That's it.

So, let's give an example, I got a 47 units property. The NOI on actuals is $100,000 per year. The occupancy is 85%. The rehab is $20,000. The market cap is 8.5% and I wanna buy it at a cap rate higher than the market cap. So, I'm gonna say I want my desired cap rate to be 10%. Because remember, that spread is what determines my profit. Okay, that's the setup for the scenario. So, what's my MAO? Well, if we look at step number 4, MAO equals NOI divided by desired cap minus rehab costs. So I want… My MAO is $100,000 divided by my desired cap of 10% minus the $20,000 rehab cost, or $980,000. Or if I divide that by 47 units, $20,800 per door. Remember I said, we're always looking for deals that are gonna be less than $25,000 per door, class C, high market cap areas. Here's one. So, it came out to $20,800. That's it. That's the process if it's greater than 60% occupied. The only thing you gotta decide is what you want your desired cap rate to be.

Now, I will tell you, in the past, before the economy went south, I would tell you our desired cap rate was 10%. As the economy has gotten bad and as market cap rates have slid up, now our desired cap rate is 11% or better. We're looking for deals that are 11 cap or better to flip. Alright? So, on a class C property, our desired cap rate is 11%.

Alright, second scenario, low occupancy, has less than 60% occupancy. The recipe here, we're gonna determine the pro forma NOI. Now you might be saying, wait a minute Lance, you told me, don't use pro forma; only do actuals. Yes. But when the occupancy is less than 60%... Imagine a property that's 30% occupied. Well, the revenue is so low that the NOI will actually be negative, because the expenses are higher than the income. And so, if you try to do it on actual the numbers won't work, because there's just not enough revenue. So, we're going to literally borrow the formula used for evaluating house rehabs on flipping houses and use it for apartments.

So, we're gonna determine the future value of the NOI, the pro forma, the step one. Then we're gonna determine the rehab cost to reset NOI, step two. Step three, the MAO formula is this: the maximum allowable offer is gonna be 70% times, let's call it the ARV, which is the after repair value minus the rehab cost. And the after repaired value is, what's the future value, once it's stabilized, which I can calculate on the back of an envelope. I'm getting ready to show you. So the ARV, the after repaired value, is gonna be the pro forma NOI divided by the market cap rate. Let me give you an example that I think will bring this to light.

Same 47 units. Pro forma NOI is $100,000 per year, which meant, if I was 90% occupied, what would the NOI be if I was 90% occupied? Well, the actual occupancy is 50%. So, I'm gonna do a pro forma NOI and determine the $100,000 per year. The rehab is $120,000, because it's really in bad shape. The market cap's 8.5%. Desired cap is 10%. Alright? That's the scenario. So, here's how I determine my maximum offer. I determine my after repaired value is that pro forma NOI divided by 8.5% market cap is $1,176,000, which means once this property is stabilized and operating at 90%, it's worth $1,176,000. I determined that just by this formula right here, just like any appraiser would do it. And then I'm gonna take… To determine my offer, I'm gonna take 70% of that future value and subtract the rehab cost of $120,000. So, my maximum allowable offer is $703,000. If you divide that by 47 units, it's $15,000 per door, $15,000 per door.

So, that's how you do it. And then if you're looking at a property that's totally empty, that's exactly the same way you do it. Alright, so with that, that's two scenarios for making… for determining your offer prices. Now, who has questions? That's gonna be the formal portion of our instruction for tonight. So, now we just have any questions you guys have.

Student: Can you back up one second, Lance? I didn't get all the numbers on the last example.

Lance: Yep. There you go.

Student: Perfect. Thank you.

Lance: You're welcome. Let's see if we have some questions coming in on the board here. If we do I'm gonna bring them up. Okay, so Shavon did that answer your question about the process for determining an offer price? Because you asked the question.

Shavon: Yes, that definitely answers my question.

Lance: Okay, great, great.

Shavon: Thanks.

Lance: You're welcome. You're welcome. Kevin says, are these examples in the workbook for study? Yes they are. And you're also… You're gonna see them in the exercises I'm posting for you and the answers, you're gonna see them there. Not these same examples, but you're gonna see other examples on the exercises I'm putting in the resource vault which you'll get access to tomorrow. I'm gonna step you through this exact process, both scenarios with the answer sheets. And then if you have questions from that. Then you can either email them in to me or address them next week.

So, let's see, alright, we have a question here from Bruce. So Bruce said, what's… Bruce asked, what's the threshold for high cap 9 plus percent? A high… That's a great question. A high… There's really only two, and I'm gonna do… I'm gonna cover more of this next week but there's only really two segments. There's either a high market cap or a low market cap areas. A high market cap area is most of the country. It's like Houston where, on a class C, you know, 8 to 9% is a high market cap area. And it's only high relative to the low market caps like LA in California and Florida, where a class C market cap is 5%. So, when I say high… that's a great question… When I say high market cap… Well, let me back up. When I say low market cap area, which has… That means like California, New York or Florida and then everything else is the rest of the country, which I call high market cap. Hope that's not too confusing, but that's the only two, the only two segments. Okay, Bruce said, thanks. Okay. Thank you. Great question, Bruce. Thanks for getting me to clarify that.

Alright, Dennis had a question. Well, is someone on the line right now with a question? No. Okay. Dennis said, 45% seems high. I think he's talking in regards to the expense ratio. 45% seems high. Aren't most apartments metered and the tenant pays? Yes. Let's talk about this. First… there's two parts to this comment, question. I mean, 45% is just what it costs because you're gonna have…. When you add it all up, you've got taxes, insurance, management fees, onsite managers, maintenance, utilities. And just, it's just what it costs to operate these businesses, 45%. Now, on an all… And the tenant is paying their own electricity. The landlord always pays, always, 99% of the time pays the water, the water bill and 99% of the time pays the gas bill for the boiler. When a property is all bills paid, now the tenant… Excuse me. Now the landlord, the owner is paying also for the electricity of the resident and so that's why we have to bump it up another 10% to 55%. But 45% is just what I stakes to operate these properties. And when you… this is why I want you guys… When you look at the… When you go to LoopNet between now and next week, I want you to be looking at those three. Find three examples, at least three, and just, you're looking for one that has a breakdown of as much of the line items and the expenses as well. I don't want you to look at one that says that total expenses are X. No, I want you to look at one that has a breakdown of all the line items and you'll get a sense of, you know, where those expenses are coming from.

Alright. Let's see. Are there any hands up? We've got, Bruce has your hand up. Did we get your question answered? Let's see. I'm assuming we did.

Bruce: Lance, thank you very much.

Lance: Alright thanks. Thanks, Bruce. Let's see. Another question came in form Louis. Are we still looking at the unit mix where over half the units are two bedrooms when wholesaling? Alright, great question. I didn't... There is… When you listen in the home study system, one of the guidelines they talk about is unit mix. The primary guideline is we're looking for desired cap rates of 11 cap or better. Number two, looking for a price for door of $25,000 per door or less. Then the third guideline that I talk about in that the unit mix. The unit mix is how many one bedroom, two bedroom, three bedrooms relative percent that you have. This is a guideline. We'd like to have properties where it's at least half two bedrooms, as compared to one bedrooms, because that means the average rent will be higher. The more two bedrooms we have, the average rent per door goes up. And so, when it comes to wholesaling, yes, we can use that, to answer your question, Louis, yes we can use that as a guideline, but it's more of a guideline. The property can be 100% one bedroom and if we buy it at the right price, it's still a good deal to flip. So, I tend to… I de-emphasize that, as, less and less when it comes to wholesaling. So, okay, he said thanks. Great question. Great question. Alright, who else has a question? None on the big board.

Bruce: It's Bruce again.

Lance: Yes, sir.

Bruce: You talk about the home study course. I just got a package today but it does not have the multi, the family success package… I don't have the… I was looking through this stuff madly as we were going through this, and I, evidently I don't have the course that you're referring to. Or at least I'm not finding the…

Lance: Well, that's it, that's it. The multifamily success home studies system. The blue one, right?

Bruce: Yeah and I'm… Okay, I'll look through it again.

Lance: Yeah, you've got, there's your workbook, the CDs, transcript, the 30 day quick start guide. Because what you just said Bruce is that the multifamily success home study system is the, is the home study course I'm referring to.

Bruce: Okay. Very good. Thank you.

Lance: Okay. No, thank you. Now, in addition to that, everyone's gonna be receiving your logins to a resource vault where I'm gonna be putting... Well, the first thing you're gonna be seeing is the three exercises I want you to do with the answer sheets and then you'll be seeing recordings from tonight's session go up there. These notes will be going up there. And I'll tell you right now, the audios… the notes will go up. The audios go up pretty much immediately after that. And the video may take a couple of days because it has to be rendered. But, we get the PowerPoints to you immediately, the notes and the audio. Those are all easy to get posted. And then we'll be adding bonus materials throughout the session. So, you have the resource vault and the home study system. Alright, let's see, any other questions? None on the big board. Anyone have any final questions, comments, ah-ha moments? Can you guys do this? You've got your assignment. This is the part, you know, with your permission, I'll hold you accountable just to make sure you get to flexing those new muscles, this is between now and next Wednesday. I don't see any other…

Bruce: Hey [INAUDIBLE].

Lance: Go ahead Bruce.

Bruce: How do we get brokers to get you accurate information? I called on a bunch of deals. I mean, I'm raring to go. I've called on a bunch of deals and I can't get financials out of these brokers. Any hints on how to get a hold of the…?

Lance: Let me answer it in two parts. I'm gonna save part of it 'till next week. We talk about talking to brokers. But I'm gonna say, is your problem they're sending you information and it's not good? Or are they not sending you anything?

Bruce: Some of both.

Lance: Okay. If they're sending you… Let me answer the half of it. If they're sending you information you're not sure is good, that's where that expense ratio is so essential, because you can size up the quality of the data just off that expense ratio. And, like I say, you're gonna see one of two… You're gonna see, I guess, one of three scenarios. You're gonna run the numbers and their expense ratio is gonna work out to be 46% and you're expecting 45%, which says, okay the numbers must be good. Or, you're gonna run it and they're gonna have an expense ratio of 35%, which means that the expenses are way too low compared to the 45%. And the first thing you look for, I'll tell you from experience, the first thing you look for is… When I see that, when I know nothing about a property, I'll say I bet it's a self-managed property. Which means the owner's doing the property management themselves and they may be even swinging a hammer themselves. So, there'll be no line item expense for property management fees and the repairs and maintenance budget will only reflect the Home Depot bills because they're doing the labor themselves. So, that's when the expense ratio is low.

The other extreme, you may… You'll run the numbers and their expense ratio is 60% and you're expecting it to be 45%. The most… There's two, there's two probable causes there. Number one is they may have done a bunch of capital improvements like put on a new roof, bought a bunch of new appliances, bought a bunch of new ACs and they didn't…Instead of treating it as a capital… It should have been treated as a capital improvement, not as an expense. But they've loaded it all up into expenses either because of sloppy accounting or they're gonna try to put it into their tax return. But, what they're calling an expense is really a capital improvement and so, you know, we can just modify that. The other reason you might have high expense ratio is, you'll see this, the property management company has a very high payroll and what they're doing is they're syphoning funds out of the property through payroll. So, those are those common scenarios. But, that expense ratio, I mean, it tells the whole story about your financials when you start looking at them.

Now, with regard to your second question about how they, you know, if he or she's not giving you the information you gotta… That's next week's talk. That's dealing with a broker. That help you Bruce? At least half of your question? Maybe he got off. Alright, he says, thanks. Alright, great. Then he says, yes I'm pumped. Hold me accountable. Alright, Vinny you're down. So, we're holding Vinny accountable. You're down. I've got it in writing. Great job.

Alright, so with that, hey, great job guys. I love the participation. Great first session. You've got your assignments. Putting up here back on your screen again. And we we'll be talking about this first time we regroup. If you have any questions along the way, email us at www.clientcarefcgllc.com to support you between now and next week. Looking forward to next week. Got a great group here. When you exit here, remember, please add client care to your address book. Please add client care to your address book so I can make sure the registrations are getting in. I think we have a couple people that may have not gotten their webinar registration tonight, so make sure the spam filters aren't holding anything up. And secondly, when you exit, they'll be a brief survey that pops up. If you could take 60 seconds. You have any comments, suggestions, ideas for improvement, please put them in there. I read these… I'll read them tomorrow morning and I take the suggestions and I use that to incorporate back into the program, back into the program live, so we've got a great event for you... so, with that, great job showing up. Looking forward to working with you the next few weeks and talking to you on next week's session next Wednesday. Goodnight everyone.