

Exit Strategies as an Investor



wealthfit

Preview Of What You Will Learn

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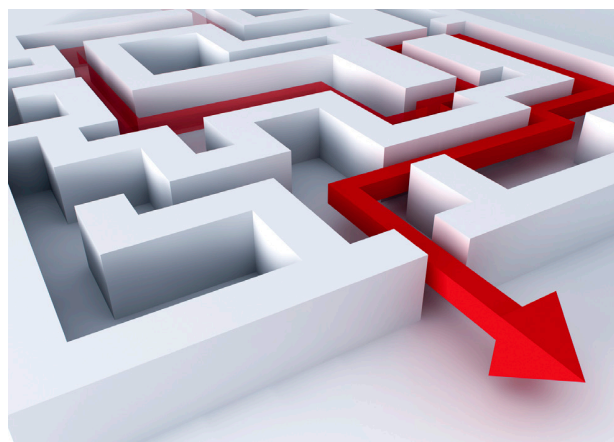
You Will Be Able To:

- Evaluate and make well-informed decisions on the various exit strategies for your deals
- Minimize your risk by understanding and establishing the right exit strategies for every deal - *before* you buy

Introduction

A real estate investing business can be financially and personally rewarding if you carefully plan ahead and make the proper decisions. In the words of Alan Lakein, "Failing to plan is planning to fail." Investors who fail to establish exit strategies for their properties are setting themselves up for failure. An exit strategy is a plan specifying the way an investor intends to get out of a real estate deal. Choosing a sound exit strategy for your real estate deals is crucial to your success, allowing you to minimize your risk and maximize the value and profit of your deals.

Unfortunately, quite often we have seen investors fail, or waste enormous amounts of time because they weren't educated and didn't properly plan their exit strategies for their deals. Some saw their deals fall apart, while others lost their deposit because they just "winged it".



Our goal in creating this system is to equip you with the information needed to make well-informed decisions when choosing the right exit strategies for your deals. Without having a well thought-out plan in place, you are much like an athlete unprepared for the big game. Chances are, you wouldn't go into a playoff game unprepared, without an end goal in mind – you would be sure to carefully plan out your winning strategies to come out on top. By applying this logic to your real estate business and educating yourself through this system, you should have a clear understanding of exit strategies and the role they play in your success.

The Importance of an Exit Strategy

In This Section, You Will Learn:

- *Why determining an exit strategy is such a crucial element to successful deals*
- *The different factors you should consider when choosing your exit*
- *Brief descriptions of common strategies investors use for their deals*

Knowing Your Exit Before You Buy

As investors, it is crucial for us to “begin with the end in mind.” Going into a negotiation without an exit strategy in mind is the equivalent of playing poker and not being able to see a few of your cards. The same thinking applies to the real estate business. From the beginning, you should have a clear understanding of how to eventually get out of your real estate investment.

“Start with the end in mind.” - Steven Covey

Knowing your exit strategy before you buy can save you hundreds of thousands – maybe even millions of dollars over your investing career. Ideally, you should have an idea of what your exit options will be even before you meet face-to-face with a seller. It is never wise to enter into negotiations with anyone unless you have a preliminary plan in mind of how you will be exiting from the deal and making money in the process. It will be hard to negotiate from a position of strength if you don’t know what you are going to do with the property once you purchase it.

Is An Exit Strategy Always Necessary Before I Buy?

The only instance when it’s typically not necessary to know your exit strategy beforehand is when you have a chance to buy a property at 50% or less of the current market value. At that low price, you have numerous options to either wholesale, rehab, lease option, or buy and hold. Great deals like these will happen more often than you think, when you have implemented three to four consistent marketing campaigns.



Key Factors Influencing Your Exit Strategies

There are many factors to consider when choosing an exit strategy for one of your deals. Unfortunately, there is no golden formula for which exit strategy you should use when it comes to investing in real estate. There may be similarities between deals; however, it is hard to categorize them because your exit strategy can change based upon a number of varying factors. The profitability of the deal; financing of your buyer; and the personalities of the parties involved are all unique, making it difficult to create golden formulas. Over time, you will be able to recognize certain commonalities and put deals into specific categories.

As mentioned before, the exit strategy you choose will be based on many different factors, such as:

- Your short & long-term financial goals
- Your experience level
- Time to close
- Purchase price
- Terms
- Property value
- Condition of the property
- Market conditions
- Supply & demand
- Financing available (for you or your buyers)
- Profit potential
- Where the property is located



Profitable Exit Strategies to Consider

Different strategies appeal to different people. Investors consider specific options based on the outcome they want to achieve, the amount of cash they want to invest in the project, and/or their level of experience with each strategy. Keep in mind: There is no right or wrong strategy in general. However, knowing all the different ways you can exit from a deal can increase profitability of your business significantly, because you will know how to profit on even the most marginal deals. Here's a snapshot of a few common exit strategies you should consider:

Seller Finance (or "Owner Finance")

Seller financing is a creative technique in which an owner sells a property to a buyer. Simply put, you're borrowing money from the owner instead of a bank, and making your monthly payments to the owner instead.



The seller acts as the lender and holds the mortgage loan to cover the sales price. Both the seller and buyer agree to the interest rate, terms and conditions they desire, and draw up the necessary paperwork to close on the property.

Lease Options

With a lease option, you can buy a property and lease it to a tenant/buyer with an “option” to purchase the property from you at a later date. It starts with your tenant/buyer signing a normal lease agreement for a set period of time and also an option contract – giving them first right to purchase the property from you at a set date.

Pre-Habbing

A pre-hab is a cross breed between a rehab and wholesale deal. It’s technically a small rehab deal, however you are only doing minimal work to the property before selling it to a rehabber. This generally involves cleaning out, gutting the property, or painting improvements.

Buy & Hold

Buying and holding is when you purchase a house, renovate and rent it for monthly cash flow. Often, you’ll come across properties and locations that are better suited for long-term holds. We refer to this strategy as a “future exit strategy”, because the plan is to hold the property for a while. Typically, when used as part of a long-term goal, investors plan on keeping the property for years until the equity builds and mortgage is paid off.

Wholesaling

When you wholesale, you act as the “middleman” between the seller and the end buyer. As a wholesaler, you find and quickly sell properties at a price that allows a respectable profit margin. There are two methods in which you can wholesale: You can either sell or “assign” your purchase contract to an end buyer, or you actually close on the property yourself and immediately resell the property to another investor “double close”.

Rehabbing

Rehabbing is when you buy a house, renovate and re-sell it for full market value to a qualified buyer who has a traditional mortgage or who can pay cash. This is typically the best strategy if a home is in need of large repairs and there is a large profit margin.

Wholesaling: Assignment or Double Close?

In This Section You Will Learn:

- *The scenarios in which wholesaling is the best strategy to use*
- *Steps to assigning contracts & double closings*
- *Common misconceptions about wholesaling*

As briefly discussed in the last section, the wholesaling strategy involves your acting as the “middleman” between the seller and the end buyer. You become a valuable asset to your end buyer, by locating really good deals at deep discounts and creating a scenario where the buyer can just step in and either take over your contract, or purchase the property directly from you. In most cases, you can successfully wholesale any type of property, from single-family homes to condos and commercial properties, and in nearly every major market.

Wholesaling Works Best When:

- You're CASH poor
- You're a newbie just getting started
- You don't have a large marketing budget
- The deal a “tweener” – it doesn't fit your criteria exactly the way you want. For instance, the property could be in the right location, but outside your price range.
- The property requires a large renovation (typically anywhere over 10-12% cost to cure) and you don't have much experience

There are two common ways to close a wholesale deal. You can either sell the contract, or you can perform a double closing. Depending on where you conduct business, there are other names commonly used for these two strategies. Sometimes people refer to selling your contract as an “assignment” or “assignment of contract.” In other scenarios, a double closing is the method you can use. This is also known as a “simultaneous close” or “double escrow.” Let's go into a further detail about each.



Assigning Your Contract

Assigning a contract is simply selling a contract – not the property itself. When you put a property under contract, you have equitable interest in the property. You don't own the property; you control it by means of a contract. The buyer is stepping into your shoes assuming the role of the buyer.



When wholesaling a property, you **MUST** sign a contract to purchase the property from the seller—a purchase and sale agreement. Technically, the contract itself gives you an “equitable interest” in the property, which gives you control.

Assignment Pros & Cons

PROS	CONS
<ul style="list-style-type: none">• No need for hiring contractors to rehab the property• Cash or credit is not always needed• Minimal time involved• No closing costs• Minimal risk involved• No obligations of funding the house, repairing or leasing it• Fast profits, usually within days/ weeks	<ul style="list-style-type: none">• Smaller profits than rehabbing• No residual income, not a passive investment• Minimal time to find a buyer• Limited exposure for your business

(Typically, transactions are simpler when if you have a cash buyer buying your contract. We usually prefer to assign the contract if we are dealing with a cash buyer).

When you're signing the purchase and sale agreement to buy the property, you must check to make sure that there are no clauses in the contract that specifically limit you from “assigning” or “selling the contract.” All contracts, by default, can be sold to another party unless specifically stated otherwise within the contract.

That being said, there are some Board of Realtor contracts that limit your ability to sell or assign the contract; so make sure you familiarize yourself with the agreements Realtors are using in your area. If you do find a contract with a clause that specifically limits your ability to sell the contract,



sometimes the solution is to strike the clause from the agreement and have both parties initial and date the change. However, it's important to make sure that your specific state allows for this change. This does not mean selling a contract is illegal—it is simply limited within that particular agreement.

As previously mentioned, it is very important to remember that when you “assign a contract”, you are not actually selling the real estate itself, nor will you go on title. You are assigning your rights within the contract. Essentially, you are assigning your right to purchase the property at the agreed-upon terms for a profit. Your new buyer will replace you and must fulfill to whatever is written into the existing contract.

Remember!

Assigning a contract involves you signing a purchase and sale agreement with the seller and selling your rights within the contract to an end buyer. You are not selling the property itself, and will not go on title.

You will want to make sure your buyer sends a deposit to the title agent or attorney who will be handling the closing. Of course, everything will be contingent upon the seller meeting the agreed requirements in the purchase and sale agreement.



Steps To An Assignment Deal



Seller

Find motivated seller willing to sell their property at a discount



Investor (You)

Contract to buy property from the seller (you now have equitable interest). "Assign" the contract to end buyer for a fee



Buyer

End buyer closes on the deal by purchasing property from the seller



Fast Profit!

You get a fee for acting as the "middleman" between seller & buyer

You will want to make sure your buyer sends a deposit to the title agent or attorney who will be handling the closing. Of course, everything will be contingent upon the seller meeting the agreed requirements in the purchase and sale agreement.

When you have a contract, you can also re-market the property for sale (assuming the contract you're using allows for this) as long as you are completely transparent and state that you are only a "contract holder" and not the legal owner of the property. We also recommend that you explain to the seller that you will be re-marketing the property, and will therefore need access to it to show in the coming weeks. At this point, the owner is still on title – which is why you must be transparent about your role within the transaction when you are speaking with anyone who could become involved such as a potential buyer, agent, attorney, lender or title company. You should never pretend to be someone you are not in a transaction—that can get you into trouble.

Remember!

It's vitally important to be completely transparent about your role within a real estate transaction. For instance, if you are a licensed real estate agent who also invests in real estate, it's important that you let all parties know your role within the transaction to avoid confusion.

In some instances, we have had to double close because the buyer's lender wouldn't finance the transaction with an assignment. This is completely dependent on the lender the buyer is working with. Once again, the majority of investors we sell to are cash buyers. In fact, a surprisingly large number of ALL real estate transactions across the country currently involve cash buyers. The percentage of cash buyers purchasing investment properties is significantly higher.



Double Closings

A double closing, or a “simultaneous close” as it is sometimes referred to, means purchasing the property and reselling the property at a later date. This could be the same day, the next day, or 30 to 60 days later, depending on the deal. When you double close, your company will go into the chain of title and you will be the owner of the property for a short period of time (A-B transaction) until you resell the property a short while later for a profit (B-C transaction). It is not very different from the way you would normally buy a property. The difference is that the timeline to resell is much shorter (anywhere from a few hours to 60 days), so there are things you must coordinate and be aware of whenever you are performing a double closing.

Double Closing Pros & Cons

PROS	CONS
<ul style="list-style-type: none">• No need for hiring contractors to rehab the property• Minimal risk involved• No obligations of repairing or leasing the property• Fast profits, usually within weeks• If you have a cash buyer buying your contract, you don’t have to open up a second escrow, so there is less work for the title company and/or attorney• Sometimes easier if the buyer is using bank financing	<ul style="list-style-type: none">• Smaller profits than rehabbing• Typically have to pay closing costs• No residual income, not a passive investment• Minimal time to find a buyer• The bank may require you to justify the immediate increase in value asking for repair sheets, etc.• Transactional funding or “day funding” may be needed to close and season the recording of the deed for a few days• Some title companies or attorneys aren’t familiar with double closings or won’t deal with them <p><i>**It is relatively easy to find a title company or attorney who has worked with investors and understands these types of transactions. Be sure to get recommendations from other investors in your area.</i></p>

When you buy from one party and immediately resell the property, there are two settlement statements created. The first settlement statement, the HUD-1, is between you and the seller, where the numbers reflect the original sale price that was negotiated. The second settlement statement reflects the new sale price between you and your new buyer. Keep in mind that with a double close, you will typically incur the standard fees associated with a real estate closing. However, the amount of fees incurred will vary depending on your state.



Steps To A Double Closing



Seller

Find motivated seller willing to sell their property at a discount



Investor (You)

You buy property from seller & close on the deal (you're the new owner on the deed)



Buyer

End buyer purchases property from you a short while later (anywhere between a few hrs to a few days)



Your Profit!

The difference between the amount the buyer paid you, and the amount you paid is your profit!



**A - B
Transaction**



**B - C
Transaction**

Many traditional banks have stipulations, which will prohibit some of your potential exit strategies. For example, most traditional lenders will not allow you to double close on a property where you take title to the property the day of closing and immediately sell again transferring title to someone else. This means, you would typically be forced to assign the contract, or figure out another means of exit.

It is important to note that you can't "pass through" or use your buyer's funding to close the initial purchase if your buyer is getting a bank loan. You will have to fund the purchase. If you don't have cash readily available, you can utilize private money lenders or another source of funding. In this instance, your private money lender can loan you the money for the purchase and will be paid back at the sale. You can also use transactional funding or hard money lending to fund your deal.



Some traditional lenders will question whether the property was transferred in the past 30 to 90 days, and will either pull the mortgage from the buyer or require a second appraisal before they finance the deal for the buyer. Some banks will also require that you own the property for a certain number of days before they will finance the buyer. That doesn't mean these transactions can't be completed. It just means you may have to hold the property for a certain number of days or find another lender for your buyer—which is why you will prefer dealing with buyers who are buying with cash or getting a hard money loan, rather than traditional financing. In both instances you will have fewer hoops to jump through.

Always remember to make sure to obtain advice from a real estate attorney who understands creative real estate transactions. Some attorneys may not be well versed in structuring creative real estate deals – and may not know how to give the proper guidance on certain transactions. So we recommend that you check and research to find a good attorney who can assist you in making sure everything is above board and in order along the way.

Every real estate market has deals that can be made at under market value. In most cases, the market or area doesn't matter because there are distressed properties in every real estate market. To be successful as a wholesaler requires a complete real estate education, high-performance marketing campaigns, a great system and tools to manage your leads, and a desire to execute the right business model.



Rehabbing For Profit

In This Section, You Will Learn:

- *The advantages and disadvantages of utilizing rehabbing as an exit strategy*
- *The scenarios in which rehabbing is the best strategy to use*
- *A brief overview of the stages of the rehab process*

Rehabbing properties is one of the areas of investing that requires the most time to master. Learning how to rehab properties and manage contractors is something that demands dedication, time and intensely focused hands-on workshops where you are actually on the jobsite. Over the years, rehabbing has consistently been our most profitable exit strategy. And if you are willing to dedicate the time to learn this segment of investing, it will most likely prove to be one of your biggest revenue generators as well. However, it's important to note that even though rehabbing can be profitable, please note it does not guarantee your success. The only way to increase your probability of success is to study the rehab process and in it's entirety. There are advantages and disadvantages to both wholesaling and rehabbing, and the exit strategy you choose will depend on your goals.



Rehabbing Pros & Cons

PROS	CONS
<ul style="list-style-type: none">• Small rehabs are some of the easiest deals to complete for new investors• Versatility equals profitability• Larger profit margins than wholesaling	<ul style="list-style-type: none">• You have to deal with contractors and have them set up ahead of time• You have to wait months to get your profit• Cash funding can be difficult to find if you're new to investing• Complications with the rehab process can cause delay in profit



If you are a new investor, you should ALWAYS start out with projects that only need minimal work so that you don't get in over your head. Over time, as your knowledge and confidence grow, you can begin to take on increasingly larger projects that ultimately prove to be even more profitable.

Rehabbing Works Best When:

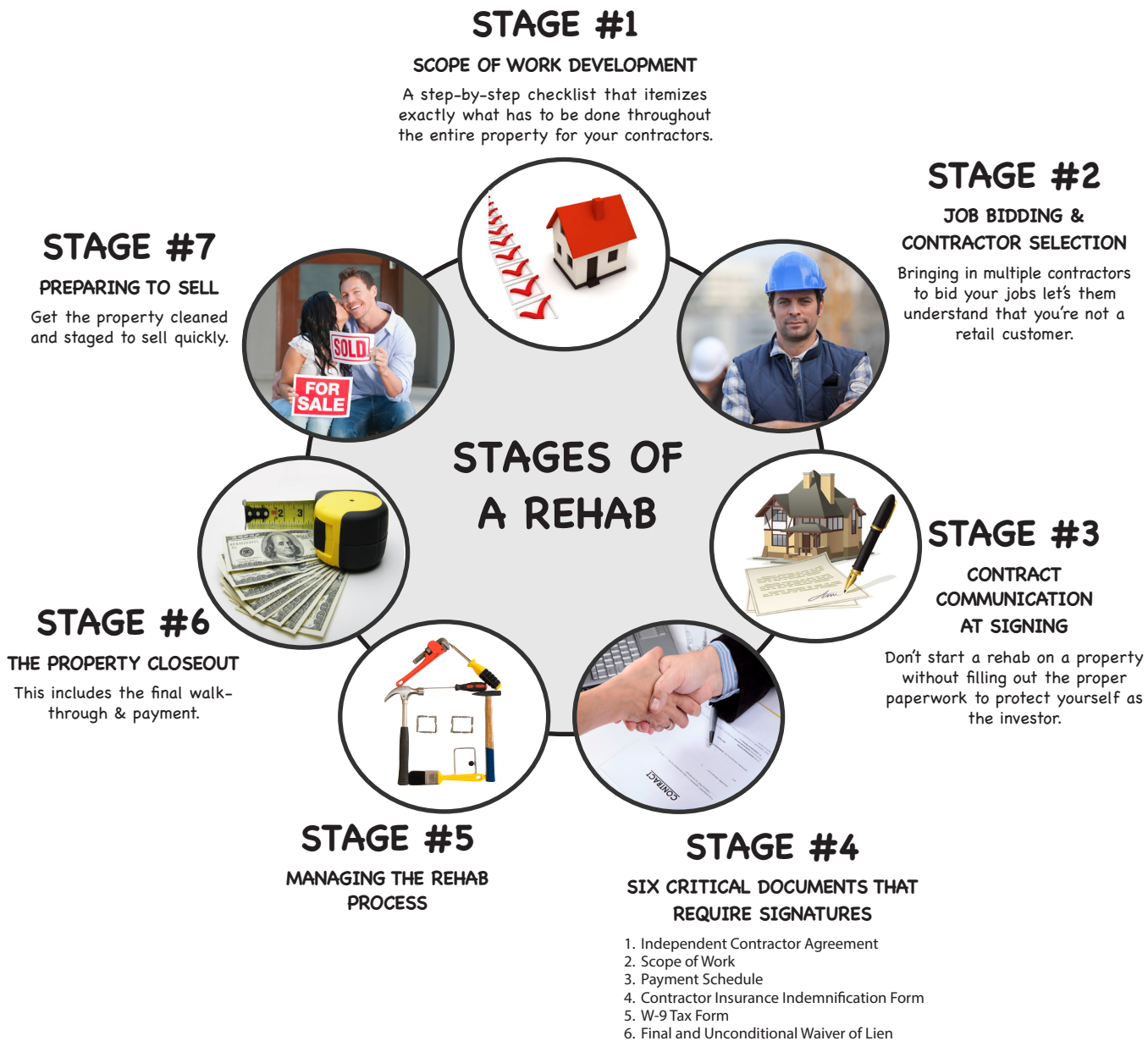
- You can wait a few months to get paid
- You want to brand your company & build credibility – Taking before & after photos of the rehab is an easy way to market and brand your business
- You can gain a large profit from the deal and the property
- The property is in a safe location
- Your team is lined up – this includes your contractors, lenders, title company, etc.





Rehab Stages Overview

The most important action in growing your rehab business is breaking the entire rehab process down into stages. This separation allows you to streamline so you don't have to spend as much time on the jobsite. It's important to have systems in place, so you can save your much-needed time on actively looking for deals. Here's a quick snapshot of the rehabbing process.



Having a Solid Back-Up Plan

In This Section, You Will Learn:

- *Why having several exit strategies for your deals is important to your success*

The Benefits of Multiple Exit Strategies

Real estate investing always involves some level of risk regardless of your exit strategy. Your job as an investor is to always understand those risks and try to minimize them in any way you can. Having several exit strategies in your arsenal is a must, because things often don't go as planned. Many novice investors find themselves in difficult situations because they neglect to have more than one exit strategy in place when purchasing a property – maybe the first plan wasn't the right fit, or just wasn't profitable. Some of these unforeseen situations can include tenant issues, the inability to secure appropriate financing, market demand issues, buyer or lender backing out, unexpected costs, declining real estate market conditions, among many others.

For example, let's say you purchase a property with the intention of rehabbing and selling it to a retail buyer – but you can't find a buyer fast enough. In this case, another option could be to try to rent the house and get cash flow coming in until you're able to find a buyer. So, it would be important to determine whether or not this property would cash flow if you find yourself in that situation.





If you are a new investor, you should ALWAYS start out with projects that only need minimal work so that you don't get in over your head. Over time, as your knowledge and confidence grow, you can begin to take on increasingly larger projects that ultimately prove to be even more profitable.

Often times, Plan A doesn't work out – so what's your Plan B? Consider these key points when mapping out your exit strategies:

- If you can't wholesale the property, are you in a position to buy the house yourself and rehab?
- If I can't rehab is there enough spread to wholesale?
- If I make this a turnkey rental opportunity am I okay holding if I have to? Is this property buyable as a rental? Am I capable of holding on to it if I have to?

Helpful Tip!

It is not wise to buy a property if:

- There is no plan B. (if the price and /or terms is right, there will always be a plan B!)
- You haven't evaluated the deal and figured out the formulas
- The spread on the deal is too thin
- You have to force the comps to fit into your price range
- You're making an emotional decision

Wrap Up

Now that you've gone through this system, you should have a clear understanding of the importance of having exit strategies and determining the most profitable ones for your deals. Keep in mind, this is not something you should delay or wait on until after you close – you've got to determine your plans far in advance. Remember, this is often the most important aspect of your deals, even before your seller negotiations.

As the saying goes, "You make your money when you buy a property". For most real estate investors, their desired outcome is income generation – and, making carefully planned decisions before you buy will play a major role in the profits you'll make later. In this system, we discussed many of the strategies available. But no matter which one you choose, the key is not to procrastinate. If you have lingering doubts and wait too long to make a decision, you may lose money and valuable time. Remember, if you always start with the end in mind, you'll be better prepared to avoid unintended mistakes –allowing you to maximize your profits.





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