UGWA Session 2

Segment 2 - Review of Week 1

Well, hi. Good evening everyone. Let me formally welcome you to tonight's apartment wholesaling virtual boot camp, session number two. And, of course, this is Lance Edwards. And what I wanna do… The first thing I wanna do is get my cursor to work. And oh I got a hi from Shavon. Welcome Shavon. And I wanna start with… To get us kind of back in the mode of what we talked about last week, quickly review the topics from last week. And, of course, we had an orientation session last week about how the virtual boot camp works. And we had two sections, two sections: 1 and 2. Section 1 is an entrepreneurial overview. I talked about the four components of success as an entrepreneur. There's… You recall these components. First one is knowledge. Second one is marketing. And I talked about, there's two things you're always marketing for: deals and dollars. Third component is systems. And the fourth component, and the most critical one is the mindset, because I'm trying to talk about mindset and introduce also the success formula. Success equals skillset, plus mindset, plus community. Emphasize the skillset you can learn. The mindset, the good news is we can adapt and enhance and improve. And the community is what we build around us and this virtual boot camp is one of your communities.

In section 2 we talked about qualifying and analyzing apartment deals. And this is actually a bit… we're gonna conclude section two tonight. But, remember, we talked about the two key terms with the… Only two key terms we need to know when it comes to analyzing an income producing property. Its net operating income or NOI and this other term is known as the cap rate. So, we've got NOI and cap rate. And from that, really everything else, everything else rolls out, because our criteria for determining if a deal is a good deal for a flip is the cap rate at which we're buying the deal must be greater than the market cap rate. Right? Cap rate must be greater than the market cap rate. That's the fundamental rule, whichever market you're in.

And then I gave some kind of shortcuts to that. We talked about classes, you know, classes of property: A, B, C and D. Talk about in class C, kind of the shortcut guideline, we're looking for deals that have a price per door of less than $25,000. That's per door and that includes any rehab cost. For class Bs that we're looking to flip, we're looking for deals that have a price less than $30,000 per door including rehab. And, you know, those were the guidelines we used. And then I said, but really the more formal thing is what we see typically, class C deals we're looking for are deals with 11% cap or better. It was 10% cap not too long ago that we were looking for. What we're looking for now, as the market has tightened or prices have come down, we've actually raised our market cap rate to more like 11% cap. That's because the deals we're looking at… We wanna get a deal under contract as an 11% cap so we can sell it as a 10% cap. And tonight I'm talking about how, you know, more of the details of that. But that was the process of qualifying and analyzing apartment deals.

And there was one other thing, which I'll be building upon tonight, we introduced a term called the expense ratio. And I had a… I think I had a question from Vinny, one of your emails that came in and it's a great question. You asked me how to make sure the data's correct.

Because that’s one of the things we said, we always buy on actuals. We only analyze deals based on actual data, not pro forma. Well, the simplest… It’s not the simplest. The most fundamental way to know if the data’s right is when we collect the data and do our analysis we calculate that expense ratio and see if it’s within range. You may recall, the expense ratio national average is 45%. The expenses should be 45% of the GSI, or the gross scheduled income. ‘Cause that expense ratio is operating expenses divided by gross, scheduled income. And that’s for properties not all bills paid. If the property is all bills paid, then that ratio is 55%. And that, so that ratio is actually the first thing we look at before we look at cap rate because if this ratio is not correct, nothing is gonna be correct. And so, that’s why it’s a very, very, very important ratio.

So, tonight, we’ll be continuing with that and that was the topics we did last week. Now, I also gave a field assignment and I asked you to go listen to or read modules one and two in your multifamily success home study system. And then I sent you three exercises to work on in running numbers. There was a 10 unit, a 200 unit and a low occupancy example. I also asked you to go to LoopNet, establish an account for yourself and sort of look at deals and practice analyzing three deals. I want you to get…This is a key habit we need to develop for you because I can assure you, after you look at just a few deals, you’re gonna become very proficient at it. But I wanted you to go look at some deals. It didn’t matter is they were good or bad deals. That wasn’t the exercise. The exercise was to get comfortable looking at the numbers and filling in the deal analysis sheet. And then I asked you to bring your comments and questions to tonight’s session. So, and actually also wanted you to go download the quick start audio at realcoachtrial.com to begin building your mindset routine. So, that was the field assignment. So, with that, let me ask this one, who has questions of comments from your assignment? Who has questions, comments from your assignment?

Bruce: Hey Lance. This is Bruce.

Lance: Hey Bruce, there you are. How you doing?

Bruce: Good. I… Now looking at the review here I didn’t, I should have taken a snapshot of that. When I wrote my notes, I get the part about the three mastery exercises in the resource vault. I’ve been trying to do a 10 unit, a 200 unit, low occupancy, you know on LoopNet. So, maybe that’s why I’ve been so frustrated. I’m gonna take pictures of your homework assignments from now on so I… ‘Cause I can’t scribble fast enough to get it all, you know, the details down, so…

Lance: Well, you should have received... We had trouble getting the resource vault last week so I emailed you the slides as well. You should have received a PDF of all the slides.

Bruce: I think I'm gonna have to set up a separate email for you guys 'cause I get about three emails a day from you guys but I also get several dozen other ones, so maybe I… I don't think I missed it, 'cause I don't show any unread one, anyway, I'll get off. I just need to follow the instructions better.

Lance: No, no. I'm glad you pointed this out because everyone should have received an email last Thursday, came out late Thursday afternoon and I attached the assignments were PDF. The slides were in there. A link to the audio from last week was in there and then we're still working on the video. So, is there anyone that did not… First of all, who received these? Did someone receive the email, make sure the email's getting through. If you received the email send me a message or jump on. Okay, Vinny said he got it. So, I think the system's working. So, everyone just be aware that you should have received that last week. Now we got the resource vault issue resolved, I believe, yesterday. You guys should receive membership logins for that. And so we'll be posting to there. But that was my work around last week, just to email it straight to you.

Bruce: Okay, so that would have been the 17th and I'm not seeing anything on the 17th, Lance, so maybe I'm gonna have to set up a separate email account. Maybe it got caught in my spam filter or something, but I didn't receive that.

Lance: Okay, well. Are you getting…? You are… Obviously you're getting initiations to these because you got on the webinar.

Bruce: Yeah, so I don't know. Maybe I… It may have inadvertently got run to the spam or in the trash or I don't know. I'll figure that one out so we don't have a problem in the future. I didn't have one from the 17th or 18th.

Lance: Okay. Okay. So, alright. So, let me ask this, those of you who did receive the exercises, who has, who has questions… Anybody have any kind of questions or challenges with that? Everyone understand it? We hand out the answer sheets with exercises. Those three exercises, I mean, that's basically it, guys. If you understand those three exercises, you're good to go. You're pretty much good to go. I mean, that's covering, you know, 90% of the cases you're gonna be seeing. So, who has a question or a comment for those exercises? If you do just press star six.

Vinny: Can you hear me, Lance? This is Vinny.

Lance: Hey Vinny. How are you doing?

Vinny: Hey, pretty good. My question is for exercise two. First of all, I like that part, how you broke it down then you gave us ten minutes so the pressure was on there. I actually used my timer and I finished right at the ten minute mark.

Lance: Okay.

Vinny: But my question is for the number 4. You knew that it was not all bills paid since the one bedroom rent is $425.

Lance: Correct.

Vinny: And my question is: what range is all bills paid rent? And what range is not all bills paid rent. So, I wanted to make a note of that so I tally it like you did.

Lance: Okay, great. The all bills paid is on a one bedroom, we just look at one bedroom, it's gonna be between $400 and… Excuse me. Not all bills paid is gonna be between $400 and $450.

Vinny: Okay.

Lance: Alright, now when it's all bills paid, you know, here's a way to think of it. Think of how much would electricity cost you. Well, add 100 bucks. So if it's all bills paid, a one bedroom in class C is gonna be, you know, $500 to $550.

Vinny: Okay. Thanks Lance.

Lance: You're welcome and that is a great question. That rule is applied all the time. When I… when someone hands me a deal, let's say we're on a press session or I see a deal that comes in, one of the first things I look at is the rent. And if I see a rent, a one bedroom rent of five… Let's say the one bedroom rent is $550. If they haven't specified what class of property it is, it could be one of two things. Number one, it could be a class C that's all bills paid or it could be a class B that's not all bills paid. Now, the way to tell if it's all bills paid, and let's start looking at a deal sheet which we'll be talking about tonight. So, I'm looking at a deal sheet and they didn't circle the all bills paid yes or no area. Then I go look at the electricity line item for expenses and I do a calculation to figure out how much per month that they're spending on electricity per unit, because the landlord's paying for the electricity if it's all bills paid. And if you run the numbers and, you know, if they're paying, you know, $80 a month electricity or $100 a month per unit per month electricity, then that's an all bills property, which will tell you is the rent was $550, it's all bills. If it's $550 then it must be a class C. I hope that made sense. That was kind of circular logic, but that is how strong these things tie together. Who else has a question or comment from the exercise? If that didn't answer your question just let me know, or certainly dial, dial back. But who else has a question or a comment from either the exercises or doing some practice deals on LoopNet? I wanna hear what your guys' impressions were just practicing on LoopNet. Was it tough? Was it straightforward? Was it confusing? Was it easier than you thought? Give me some feedback. Press star 6 or this can become the portions of the evening where I pick on people out of the blue.

Bruce: Okay Lance. Bruce again. I'll volunteer.

Lance: Hey Bruce.

Bruce: I mean I… I have a grasp or a grip of what the numbers are. It's a recurring problem though, to get these guys on LoopNet to really get you accurate information. I mean, everything on there seems to be pro forma or, I don't know, some kind of high in the sky BS. I don't know where they come up with it. But the challenge is getting realistic information. I have been able to get some locally here, from local brokers, but man, outside of that I'm just having a heck of a time getting a response or complete, complete financials from these guys. What do you suggest?

Lance: Wait until I talk tonight about talking to brokers. Hold that… Great question. Hold that comment for when we get to tonight's discussion about talking to brokers. Bruce, you there? Uh oh, we lose Bruce? Bruce?

Bruce: I went back to mute. Sorry, I got it. I'll hold my question.

Lance: And if I don't answer it then raise it right then. That's one of the things we've talked about is this interaction with brokers and that's a great question. Now, someone, at the same time Bruce was coming in, someone else was volunteering. Who was that?

Vinny: It was me Lance, Vinny.

Lance: Hey Vinny. Okay, so what was your question or comment Vinny?

Vinny: I agree with Bruce a lot of the people put the things on their pro forma. Even the actual seemed like they're missing a lot of things. But, something that I found when I was working in numbers, it was frustrating because the cap rate I was getting was so much lower than they were saying. Even working on their numbers. And what I found a few times is they were not including the vacancy rate.

Lance: Correct.

Vinny: So, I mean, right away I noticed a big problem.

Lance: Yeah and this… Let me speak to this because this is quite common. So you guys, good, you've already discovered one of the things. When you look at LoopNet deals, and I'll be talking about LoopNet tonight, LoopNet, you know, everybody sells them pro forma right? They wanna sell the prettiest possible scenario. And that's why we don't analyze based on pro forma. We analyze based on actual. Many times you'll see that they may put a vacancy in there of 5%. Often times brokers do that and run the numbers. And one of the things we talked about last week, we never do anything less than 10%. I don't care, I don't care even if it's running at 5% today, we use 10% vacancy in our calculations. Because it may physically running at 5% vacancy, maybe, but are they collecting all the money? Because there's something called economic vacancy and physical vacancy. I can be 5% physically vacant, but if some people aren't paying money, my actual economic vacancy could be higher. And economic vacancy is the one that really matters. So, you'll see that. That's one thing they do. And they, you know, that's the main thing they'll do. In terms of leaving out any numbers intentionally, they usually don't leave out, you know, most people are honorable people. They're not gonna leave out anything but what's so important is that expense ratio. That's why we look at the expense ratio to see that all hold together. Right?

If the expense ratio doesn't make sense, then I go back and look at the line items on the expenses to see if maybe I'm missing something or something was low. So, again, that expense ratio is meant… It's extremely useful in tying the whole package together.

Who else had a question or comment? From talking either on LoopNet or the exercises, using your deal analysis sheets. Yes, who's this?

Kevin: Kevin.

Lance: Hey Kevin.

Kevin: Yeah, my name's Kevin in Montana. I was a little busy but I still managed to get a few calls out and get some of the exercises done. I think Vinny had a very valid point regarding some of the information that was missing. I did do a 10% vacancy ratio as directed by yourself, instead of the 5%. That usually put us within 1% to 1.5% of the cap rate advertised. The other thing I did was, you know, being that I used to be a broker, a commercial broker years ago, I was able to get some of the information of them, you know? Some of them weren't real good about it. Some of them were depending on whether they took you as a serious buyer. But I know that one we get…Once you get the jargon down and learn the correct questions to ask the people they're much more forthcoming and that's something that everyone can look forward to, believe me. But generally I was within 1 point to 1.5% of the advertised cap rate after I plugged in the proper numbers. They were pretty accurate. It's just a matter of saying, well, what about this and what about that. And the more questions you ask, it seems like the more information they would supply and plus more was the response that I was getting. So, I think that's something that will be able to help everybody in the future.

Lance: I think Kevin hit upon this spot on and he said the work jargon. One of the reasons I've been holding off yet responding to Bruce's question is, that's it. Tonight we'll talk about using the broker script. This broker script I think is gonna be coming in the second portion of tonight is laced with the jargon and it establishes your credibility and it builds rapport immediately, immediately, so that the broker is gonna be willing to open up and be willing to provide information. So, that's the short answer, I'll leave the longer answer when we get into the section but Kevin is spot on, is spot on. Thank you Kevin. Great insight.

Alright any…Who did I not hear from? Who had any other questions or comments? Here's a question that came in from Louis. He says, if the seller self manages do we add 10% management on expenses on the deal analysis form? Yes. Great question. Yes. So, this is common. You may have, especially on smaller properties, I don't know. A smaller property is 20 units, 30 units, 10 units. The owner may be the one managing and so they will present financials, well there's no… and you'll calculate the expense ratio and the expense ratio comes out to be 35%. You'll say, something missing here. Well, yeah, what's missing is they aren't charging themselves a management fee. Or maybe they're doing the repairs themselves. You know, there's no labor costs. All they have to do is, you know, go to Home Depot and buy parts. So, we compensate by either adding 10% as a management fee or just taking the expense ratio if it was 35%, raise the expenses so the expense ratio is 45% and then run our numbers. That's exactly what you do Louis. Perfect question. And Louis, let me know if that answered your question too.

Shavon, I see you have a question. You have a yes here so I want you to come on line and press star six. I hear someone.

Shavon: Yes. Can you hear me?

Lance: Hi there. Hey Shavon, how are you?

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

Lance: Good.

Shavon: That's good. I have a couple questions. One of the questions is, for example, when you are talking to the broker and let's say you're on LoopNet and you have one of the actual bill sheets in front of you, is it best to basically just, you know, have the conversation about those number, you know, up front? Or is it better to just establish a rapport first and then get into the concepts of the numbers. Because I noticed with a lot of the brokers, they want you to sign the non-disclosure, you know, non-binding agreement thing that you're not gonna talk about the property. You're not gonna talk about that property, etcetera, which I understand. But at the same time, it could be good sometimes to just have that…

Lance: Here's the answer. Great question. Here's the answer. I'm gonna explain that in the second part of tonight. Great question. How to interact with brokers. The answer to it is build rapport first, that's what opens up the information. But I give you the whole process for that here in about… well just a little bit. Okay?

Shavon: Okay.

Lance: So, I'll show you the whole process here. We're talking about talking to brokers tonight.

Shavon: Okay. And I had another quick question too. I know like, when you're looking on LoopNet and you see some of the information that's there. Granted, I know, you know, if it gets to the point where you're interested in that property and you can get the owner payment financials from the broker. Do you, when you're looking at properties, do you go item by item and make sure that the information that is presented, let's say on LoopNet is correct? Or do you just quickly glance it? Or do you, you know, just do an aggregate and then you create your own numbers.

Lance: Well, I look at… I put the number and determine the GSI and I determine the expenses and then I look at the expense ratio. Literally, that's what I look at. I'm not so much worried about, you know, I just wanna see the bottom line, what are the expenses? So I can get to the expense ratio to see if it looks reasonable. Because if that's off, nothing else is… No analysis is gonna be correct. That's stuff we do on the first pass. But you're gonna be, you know… My main interest for you guys is gonna be, this is a numbers game, numbers in terms of volume. We've got to sort through the trash to find the treasure. And so we wanna be able to quickly sort, quickly sort and not waste any time on something that's just, you know, an absolute dog. And so, many times, you know, I'll be on a premise call on Monday night and someone will come in. We'll do the analysis right there on the call and in 10 minutes you're going through, basically filling out the deal sheet. We jump to the expense ratio and that's okay. Then I look at, okay, what's the cap rate? If the cap rate meets the criteria the next comment is, go make an offer. Go make an offer. And you may say, well I don't have all the information. You've got enough. Go make an offer and get the property tied up so that we… We get into… We talk about this next week when we got into the due diligence, we can always double check everything and put a comb to it. But if the first pass looks like a good deal, let's get the thing, you know, tied up, 'cause this is, you know, a numbers game. It's literally the number and analyzing game. But it's a numbers game. Just, you know, sort through them, sort through them. Here's one. Quick, get an offer out. Did that help?

Shavon: Yes. That's very, very helpful. Thanks.

Lance: I mean, this is … I mean literally, what's going on especially right now, apartment wealth factor, we have deals coming in and we're, you know, we made two offers today, I think. Putting them out. Putting the out. You know, just see what's gonna stick. The offers may not even stick, for one thing. So, you just gotta, you know, asses and make an offer. Assess and make an offer. And it doesn't cost you anything to make an offer. And let's just see 'cause, really, we don't know it we have a deal. We don't know, you know, we may think we have a candidate deal and it might be a 9% cap right now. Well, the way to make it go from a 9% to 11% is to lower the price, my offer price. So, the first way, the best way to know, am I gonna be able to lower the offer price is, prepare an offer and make it and see what kind of response I get. That will judge their flexibility. Again, what I' talking about tonight. So, all of these are great questions. You guys are getting ready. So, let's go ahead and jump in tonight because I wanna finish a few points on qualifying these deals. Let me mute the line. One second.

Okay, I just cleared the lines. So, with that, let me show you, 'cause you guys are primed and ready to go. I can tell from the quality of the questions. Tonight… You know, we talked about last week how to recognize a deal. Tonight I wanna finish a portion of how to recognize a deal and then we're gonna talk about how to find these deals. This is gonna be talking about dealing with brokers, dealing with sellers and the steps to see if we've got a deal. And what is a deal? So, that's what's for tonight, our curriculum. Here's the agenda, how we're gonna get there. Like I said, we're gonna conclude section two on qualifying and analyzing apartment deals and then we're gonna get into finding deals, how to deal with brokers. The common question we're having, how to deal with brokers, not only that, how to deal with sellers. But, Q and A throughout as always. And I'll be giving you your field assignment just like last week. And again, what'll happen if I'm running beyond the two hour point, I will pause at that point, give the assignment and then,, you know if people need to go, which I understand, I'll come back and continue with the discussion or answering questions, wherever we are. So, let's go back to our flow chart, where we are in the process. There's always 8 steps in the wholesaling process. Step 2 we began last week on qualifying the deal. We're gonna conclude step two here in just a moment. And then we're gonna talk about step 1, finding a deal, alright? Finding a deal. So, this is our focus for tonight.

Segment 2 – Section 2, Part 2

So, qualifying and analyzing apartment deals. This is part two of section two. And again, the reference is module two in the home study system. Quick recap, just to get us back in the mode of a little bit of math here. This is simple math. We last week talked about the net operating income, the NOI, revenue minus expenses. Cap rate is the NOI divided by the price, our purchase price, plus the cost of rehab. The value of a property… We take that same cap rate formula in bullet number 2 and flip it around, invert it. The value of a property is the NOI divided by the market cap. We talked about that last week, what the market caps. The market cap's a function of the class of the property and what particular city you happen to be in. And a good deal is when the cap rate that we're buying the property at is greater than the market cap.

And those guidelines, again, were if it's class C, we're looking for a price per door of less than $25,000 including rehab. If it's a class B, the guidelines want $30,000 per door. Now, for those of you like Kevin in California or New York or Florida, those $25,000 per door and $30,000 per door guidelines are not gonna work. I'm gonna show you tonight how do you operate in those low market cap areas.

Now, I'm gonna kind of… We're talking about, you know, qualifying deals. What we are really looking for is deals that have what is called, known as value play. Some of this is some of the jargon, value play. The value play is an opportunity for improvement such as raising the rent or raising the occupancy. It's also known as forced appreciation. That's how money's made in commercial income properties is through forced appreciation. We're gonna force the value to go up by anything that raises the NOI. So, when we put our money goggles on, and like Shavon was talking about, we're out looking for deals. Remember I said it's a numbers game. I gotta sort through the trash to find the treasure. I'm sorting and sorting and sorting. I'm putting goggles on.

I'm looking for deals where the NOI can be easily and/or significantly raised by my buyer. That means it's a deal. I'm looking for that, you know, a diamond in the rough that could be, you know, easily polished up to raise the NOI, create equity and create value for my buyer. That's what we're looking for. That's what a deal looks like. You know, I just gave you the numbers and the criteria, but we're looking for these value play deals, just like Dan's deal two weeks ago. You know, it was 50% occupied, it just needs new management. It's got, you know, some moderate rehab. Those are the value plays we're looking for because it represents huge opportunity for our buyer.

Let me show you how this works. On this slide right now, here's an example. Let's say we have a property and we can raise the rent $10 in an area where the market cap is 8.5%. Alright? What if I raise the rent 10 bucks, $10 per door? Now nobody moves out over a $10 rent increase. Well, remember the formula value equals NOI divided by cap rate. I wanna show you what kind of leverage exists in raising the value just in raising the rent 10 bucks. Well, we raise the rent $10 dollars and everything else stays equal, the NOI goes up $10 per month per unit. So, let's say the property is 90% occupied. So, the value is $10 per month times 90% occupancy times twelve months per year divided by my market cap of 8.5%. So, the value of the one unit, of one unit, went up $1,270, just by raising the rent ten bucks. Notice, I'm not looking at the property, I'm looking at the numbers. This has nothing to do with the property. This is how an appraiser would look at… asses the property is right here. Has nothing to do with the look and feel. So, if $10... If raising the rent $10 increases the value per unit of $1,270, let's look at what it means if I have a 10 unit property or a 50 unit property or a 100 unit property. 10 units… If I raise the rent across 10 units by 10 bucks, the equity increases $12,700. For 50 units it's $63,500. For 100 units it's $127,000. And that's what attracts people into commercial income producing properties is the ability to get this kind of leverage. And this is what's going to attract our buyers is the ability to find deals where these type of opportunities exist.

Now, this is a $10 rent increase. If I raise the rent $15, then 10 units is $18,000 equity increase. 50 units is like $100,000 and 100 units is $200, 000. Just increase it by 50%, $190,000, 15 rent. Now, if you did the same analysis and let's say you changes the occupancy from 90% to 92%, you get the same numbers. If you raise the rent $10, you get about $12,000 per door increase in value. If you raise the rent 2% and run the numbers, you get another $12,000 per door increase of value. So, if you raise the occupancy of a property 2% and raise the rent $10, you're gonna get a $24,000 per door equity increase, for very modest changes.

So, look at Dan's deal. 36 units, 50% occupancy. So when you run the numbers and take it from 50% to say just even 85%, you get triple. The investor, the buyer literally triples his money in that process. And that's not even touching the rent. It's those type of value plays, those forced appreciation type deals that, you know, it's like a piranha on a zebra, to be very graphic. They will be all over that deal. That's, you know, that's what we're looking for.

So, let me give you… Let's give you a list of sample value plays. Here on the slide I've got a whatever, I've got 10 here. Sample value plays, raise the rent, raise the occupancy. I just talked about what that means. Put new management in place. You know, a really sweet deal… And we really love deals. Let me go back to something here. Let's go back two slides. Under the goggles… Wanna make sure you guys are seeing this. See where it says in that yellow box? Looking for deals where the NOI can easily and/or significantly be raised by your buyer. Now, it says and/or. Obviously is it can easily and significantly be raised by our buyer, it's even more attractive. For something that, you know, what that means is if it's a vacant property, that's not necessarily gonna be an easy increase. It's gonna be a lot of work. On the other hand, going back to our value plays, if it's just a management change out and it doesn't need lot of rehab, cha-ching. Change the management and you're back on track.

Repositioning. Repositioning is another jargon, which means… It's the vernacular of the industry which simply means… Another way you'll hear it said is put lipstick on a pig. Repositioning a property means maybe you'll change the name to create a new image. You may even paint the exterior. You're gonna change the curb appeal. You're gonna change the image, the impression of that property so maybe you can attract a better resident, you could raise rents, but you're gonna reposition that property. And it's usually things that are, you know, more cosmetic in nature.

Cutting expenses is a way to the value play. Now, it doesn't exist on a lot of deals, but sometimes when you run the expenses, you find that the expense ratio is 60%. And often what's happening there is the management company's got this huge payroll and they're syphoning money out of the property through their payroll. Well, there's a value play right there, fire the management company. And boost…You know if you cut the… If you reduce the expenses, you raise the NOI and you automatically raise the value of the property.

Adding income sources. If you can find other ways, additional income sources, that also raises the NOI. This next bullet, convert to specialized housing such as assisted living, student housing, special needs. That can be a value play because many times when you go to specialized housing, you can get a rent premium. In assisted living right now, there's a business right there, in itself. You could choose to go find properties that you're going to target for assisted living because you can get, you know… And then you add some services with it as well, or your buyer can do this. You know, add services along with the property to reposition as assisted living and they can get a higher rent per door.

Student housing, the same way. Student housing, if you're familiar with student housing… I walked into an apartment here in my own town of Houston one time. I was looking at a property. It happens to be in between university of Houston and TCU. It's right between; the two universities are very close together, right between. This was a property that was being listed. Class C property two blocks away with a new student housing apartment, fairly new, probably less than 10 years old. I walked in there and I'm just doing a rent comp. I just wanted to just see what kind of rents they were getting to kind of comp it, compare it to what the other property I was interested in was doing. So, I walk inside, and I said, hi, my name is so and so. My daughter's gonna be starting here next year, I just want to see what the rents are. Oh, yes sir. He brought out a rent sheet. He said an efficiency is… never mind the words. The efficiency is $400. I said, well that's not too bad. He said, that's $400 per bed. Here we rent it by the bed. There's two beds per efficiency. Okay, $800 for an efficiency, on a two bedroom unit, they have four beds. They're getting $1,600 on per unit rent for student housing and they put four students in there. Now, they have to furnish the apartment. I think they put in cinder block furniture, non-destructible kind. But you can go buy some furniture at $1,600 a month rent for a two bedroom on student housing.

So, you know, special needs is another area. Whether it's, you know, section 8 or you cater to the blind. Any time you get special… You find a non-profit who's looking for housing for the blind. There's funding sources available. Anyway, these are ways that you can reposition and convert to these special needs because you get a rent premium.

Other value plays, if it's a slight rehab then that's pretty easy. If it's a major rehab like, you know, the property's vacant, that's a different kind of value play. It's gonna, you know, attract different kind of buyer.

So, as the wholesaler, we have our goggles on right? We've got our money goggles on. We look at a property through the lens of all these different value plays because we have to make the assessment during our analysis of how many value plays can I apply to this deal. Because when it comes time to sell the contract, flip the contract, I have to create the vision and you have to create the vision for your buyer. And that's what you're paid for, is being able to create that vision. Because that's the job of an entrepreneur. Set the vision and then get others to line up behind it. That is out role, right there. And I find it fascinating because this is neat. This is the creative part of the business. Look how it can be improved and see what others can't see. That's it. And then when you see that vision, our ability to paint that picture for our buyer of what it's going to be is how we, frankly, maximize our flip fee, our assignment fee.

Okay, now, I wanna come back to something. Low cap versus high cap markets. Low cap versus high cap markets. And remember, a high market cap area is like most of the country, like Houston, like Memphis, like Atlanta where a class C market cap rate is probably 9% today. And let's do an analysis. I'm gonna do it for, let's say I'm looking for a deal in Atlanta and in this example on your screen it says the market cap is 8.5%, so let's use that. On this deal, we run the numbers, the NOI is $27,000. We have it under contract for $220,000. So, we're buying it at a cap rate of 12.3%. Good. That's great if market cap is 8.5%. Remember the rule is the cap rate has to be greater than the market cap. So, it meets that rule. So, by using the formula up at the top on the right hand side, value equals NOI divided by market cap, we determine the value. The NOI's $27,000, I divide that by 8.5% market cap. So, the value of this property is $317,000. Well, I have under contract for 220. So the equity in the deal, the free equity in the deal is $97,000, which is the difference between the value, the retail value of 317 and what I'm buying it for at 220. Right that's, that's just how the math works. That's, you know, the end of the math lesson. That's it. That's how it works. And if you look at deals like this all the time, you know, all parts of the country, that have high market cap areas, which is probably 90% of the country.

Now, when we venture into, you know, Kevin's backyard of California, you're gonna see a different picture. But I wanna show something to you. We're now in a low market cap area. In this example, it's a class C property but the market cap, when you look on the right hand side, the fourth bullet says the market cap is 5%. Now this is pretty much the spread we're seeing today, you know, may have come up a little bit. But the relative spread between a high market cap area and low market cap area is gonna stay pretty much the same. So, let's run the numbers on low market cap example. Same NOI, same $27,000 a year NOI. The net operating income is $27,000 per year. In this case, the property's being bought for $450,000. We're in LA. You gotta pay more, gotta pay more for the property. So, we're buying it at a cap rate of 6%. The market cap is 5%. Okay, it still meets our criteria. The cap rate we're buying it at has to be greater than the market cap. So we determine the value. Again, the value is the NOI divided by the market cap. The value is $27,000 divided by, in this case, 5%. So, the value's $540,000. We're buying it for $450,000, under contract for $450,000. That means the equity in this deal is $90,000.

Now, here's what I want you to compare. Compare the equity on the right hand side to the left hand side. It's about the same. Both… And look at the NOI for both examples. It's the same. But here's the interesting point. I want you to compare on the left hand side the spread between the cap rates, the cap and the market cap. On the left hand side in that high market cap example, there's a spread of 3.8%. The difference between 12.3% and 8.5%. On the right hand side it's only a 1%, 1 point spread. The difference between 6% and 5%. So, what does this tell us? The same money's being made on the flip but a smaller spread and cap rate in a low market cap area will give you the same amount of money. What that means is, if you're looking for deals in California, sometimes people get discouraged. I can't find deals that meet your criteria. Well, recognize, you still have to have a cap rate higher than the market cap, but you don't needs as big a spread. A smaller spread will give you the same profit as someone here in Houston trying to make the same amount of money. Because in Houston I have to have a bigger spread in my cap rate to make the same amount of money for the same NOI. The reason of that sensitivity difference is because of the fact… the equation above, value equals NOI divided by market cap. As I deal with a smaller market cap area, that number's getting smaller, small changes in that denominator have a bigger effect on the value. Okay. That's, you know, this should be… This proves the point with regards to dealing in low market cap areas, whether it's Florida, New York, California. Those are gonna be the predominant ones.

Alright, now, let's look at a short cut. This is kind of a question that's being asked in today's, you know, Q and A launching tonight. I wanna talk to you about the use of a shortcut: how to assess deals when you have incomplete data. And this is kinda related do... This is related to the question. Well, what if the broker doesn't give me all the information? Or what if the seller doesn't give me all the information, 'cause let me tell you, when you're dealing with seller directly on smaller properties, I mean, many times they're running the property out of a shoe box. They don't even keep reports. They've got literally a shoebox full of receipts. And so, you may not… It may be impossible to get all the data. So what do we do? Do we skip those? No, let me show you how work them. This… We're gonna start with the same formula we've already taught you, NOI equals revenue minus expenses.

Now, I'm gonna rewrite that formula a slightly different way. Revenue is my gross scheduled income minus my vacancy and then subtract expenses. Because remember, gross scheduled income is the income I would take in if the property was doing 100% full and I was making 100% collections. Out of that I have to subtract vacancy and we always do no less than

10% vacancy. Alright? Just another way of expressing the same equation. So, let's look at how to manipulate this to make it really easy. Well, what is gross scheduled income? Gross scheduled income is simply the number of units times the rent per unit times 12 months. The vacancy I've already taught you is gonna be the higher of either the actual vacancy or 10%. We always… we use no less than 10%. If the vacancy is 15%, we use 15%. And the expenses, the national average for expenses, if it's not all bills paid, expenses are 45% of GSI. Okay?

Now, what's important about what I just showed you is, no matter who… If you're talking to seller or any broker one thing they always know is how many units there are on the property. What they always know is what the rents are being collected. And they always know what the vacancy is. I mean, anybody you talk to will know that information. But often they won't know what the real estate taxes are. They won't know what they're spending on management. They won't know what they're spending on maintenance. I'm gonna show you that doesn't matter. I'm gonna estimate it.

So, let's take, you see, bullet number 2, if I rewrite that, which is NOI equals GSI minus vacancy minus expenses. I just added a new bullet. NOI, you know another way of writing GSI is 100% GSI minus the vacancy. Well, if vacancy is 10%, I'm subtracting 10% of GSI. And expenses are 45%, I subtract 45%. So, my NOI, a back of the envelope assessment, NOI is 45% of the GSI. And see in bullet number three, to calculate GSI, all I need to know is how many units you have and what's your rent, which anybody can tell you that. So now, I can literally do a back of the envelope and determine the NOI. Once I know the NOI, an estimate of the NOI, then I can take the… determine the value by taking the NOI and dividing it by the market cap rate. And I can make my offer based upon what target cap rate I wanna have. So, if I wanna have a cap rate of 10%, then my offer, my maximum offer is gonna be that NOI that's calculated by my 10%. But now, since I'm telling you to go look for 11 cap deals, my maximum offer would be the NOI divided by 11%. Literally, this is how you do a back of the envelope on apartments right here, with the barest information. And I will make offers based upon this and then use, you know… If my offer is accepted and I get into a negotiation and get into a contract, I use due diligence process to go figure out, you know, what the missing information was and validate that my estimates, my assumptions are correct etcetera, etcetera. But this is how I'll size up… You know, again, I'm sorting through the trash to find the treasure and I can't get all the information. This is how I'm gonna quickly see if it's worth my time to keep looking for the information.

Let me give you an example just using those formulas. 100 units, $500 average rent. They tell us the vacancy is 15% and it's not an all bills paid property. So, that's all I know and I got this information driving down the highway and I wrote it on the back of a scrap piece of paper. That all I know. Alright, is this deal worth looking at? Well, I pull over the car, I do pull over the car and I get my calculator out. So, I first figure out the GSI. Well, the gross scheduled income is the 100 units times $500 per unit times 12 months is $600,000 per year. That's my maximum theoretical rent that I can collect if everybody's, you know, the place is 100% full, 100% paying. They told me the vacancy is 15%, so 15% of $600,000 is $90,000. I have to take $90,000 out of that $600,000 to account for vacancy. The expenses… They didn't have a clue what their expenses are but that doesn't matter. They've told me it's not all bills paid, so I know the national average and this property is not in Houston. So, I'll use the national average. The expenses are 45%. So expenses are gonna be about $270,000 per year. So, my NOI, my net income is $600,000 maximum potential minus the 90 K out for vacancy minus the $270,000 for expenses, my NOI, back of the envelope, is $240,000 per year.

Now, if I wanna have a 10 cap deal, my maximum offer is gonna be that $240,000 divided by that 10% cap rate I want and my max offer's $2.4 million. Or they told me its 100 units, so my max offer is $24,000 a door. Boom, make an offer. If that is all the information you can get… If you can get more information, look at it, but if that's the best you can get, make an offer off that.

Segment 3 – Section 2, Part 2 (cont'd)

How do you determine your sales price? That means what price do I set for what I'm gonna sell my contract for to my end buyer? And there's…. I'm gonna give you two answers here, and one of them I already shared I think last week but I wanna review this again. Rule number one is you always leave a good deal for your buyer. Remember, I gave the graphic example. You wanna create a scenario where there's like piranhas on a zebra, right? Bait in the water and you want every piranha in the area, you know, coming after your deal, because that's how you get frenzied activity. It has to be a good deal. You cannot sell a retail property, you know, to a… in a frenzy. There's not gonna be any frenzy. It's gonna be yawn, because I can get that anywhere.

So let's look at a way to do it. One way to do it, how much equity you've built into the deal, by the fact we bought it at a discount. Let's give… Let's make sure our buyer gets at least half the equity. Now, let me give you an example. Let's go back to our… that original 10 unit example we talked about last week. Remember, I had it under contract for $220,000. The retail value is $317,000. The quote free equity in that deal is $97,000. And so if I wanna give them at least half the equity, I could sell my contract for half the equity of $97,000, or $48,500. I can set my assignment fee of, you know, $45,000. I wanna make $45,000 on this deal, so I'm gonna sell my contract for $220,000 plus $45,000 is $265,000. Right? That's one way to do it. You're leaving, you know… but you're still leaving $48,000 or actually more, you're leaving like $50,000 equity in the deal for your end buyer. Obviously, the more juice that's left for the buyer, the more frenzied activity you're gonna get. The more piranhas we're gonna attract.

So, that's why I talk about… You know brokers limit themselves to earning no more than 6%. We can set our own fees depending upon how good of a deal we negotiate. Dan, on his deal, negotiated a smokin' deal. That's how he made $69,000 on a contract of $181,000. And his buyer is gonna make many, many, many times that. So he had, you know, there never was any question of the fee. He was probably thinking, oh gee, I'm gonna pay more for this deal. So, that's how we set the sales price.

Now, as you get… As you become, you know, comfortable with this and proficient with this, you can get… become very aggressive. Well, not aggressive. You can become, you know, more bold in the fee you wanna collect because, again, it comes down to a function of the vision we see for the property and our ability to articulate that vision to a buyer. And the ability to make sure they actually, you know, realize that vision.

But, here's the but: since everyone on this call, I believe, has not yet done their first apartment wholesale, I wanna give you rule number two. On the right hand side… Well, I'm gonna tell you a story. I'm gonna tell you a story. I was taught this… I had the privilege of coming to know a really neat man over the last few years here in Houston. He's an apartment developer. He's co-owner of one of the largest apartment development companies in the nation. I think they have a pipeline of… they're building like 5,000 units per year. So, by the way he started off 25 years ago. He bought his first apartment, 50 units. This 50 unit garden style apartment. He has a saying that has always resonated with me and I'm gonna now share with you. He said, you know Lance, when you go into business, actually and you do the first thing, the first deal, it's like a jar of olives. You know how it's hardest to get that first olive out? But once you get the first olive out the rest just seem to fall out without effort. That's what it's like getting your first deal done. And so, this is the lesson of the olive jar, it's important to me for each of you that you get the first deal done, because, by the law of the olive jar, when that first deal is done, the confidence boost you're gonna have is going to enable you to go do many, many, many, many more deals. Right? So, the first deal is the most important.

So, you're rule, when you're starting out to do your first deal is, your assignment fee is gonna be somewhere between 3 and 6% of you contract price. And I wanna encourage you to use 3%, flat 3%. So, in this case of a contract where you're selling it for $220,000, charge that 3% and you're gonna make $6,600 assignment fee. You're gonna way, but Lance, you just showed me how to make $45,000. You're right, I did. You're right. Make that on the second deal. For now, get his one closed, because until you get this one closed, it's gonna remain in your subconscious, kind of an academic pursuit. And I wanna make it, to your subconscious, an absolute living fact. So you're first deal, 3%, 3%. Because you're gonna do whatever it takes, legally and ethically, to get your first deal done. That's gonna be your launching point. I'll tell you right now, Dan Badinghouse is, you know, dangerous right now with regards to what his confidence has done, getting him on to more and more deals.

Alright, so with that, Okay, who has questions, comments from this? That concludes really section 1, excuse me, section 2 on qualifying and analyzing deals. So, let's see. You have a question, press star six. Let's see what we have on the big board. Alright, Kevin Baker says, ah ha, same spread in different markets. Yeah, Kevin, I knew you would appreciate that one being out in California. Okay. Yes, sir.

Student: What's should an offer look like to a broker? Should that be in written form or verbal?

Lance: We're gonna talk about that next week.

Student: Okay.

Lance: Next week. Great question. But always… I'll tell you right now, always written, always, always, always written, never verbal, never verbal.

Let's see. Shavon says, that's great to know about California. Yep. I mean this is how you do deals in California. She also says, I have a buyer in California who wants good deals there. Good deals there being Texas or good deals being California, Shavon? Let's see.

Shavon: Can you hear me?

Lance: Yes, hey.

Shavon: Okay. Hi. Yes. He's based out of southern California, but he's interested in, you know, finding, you know, as good a deal as possible in California as well as a few other places. And so, I go up and, you know, looking for deals in California but, you know, I was thinking, you know, thinking about the fact that the lowest cap rate I've seen is about 6.

Lance: What's your market cap? You need to find out what the market cap is in whatever area you're looking at and just… 'Cause you're actually right. The reason people are looking in California is because those buyers know that it's gonna come back and they can get in… they wanna get in these deals and be parked at the bottom of the market when the market swings.

Shavon: Right.

Lance: So that's… you've gotta understand what the market cap is to make sure you're getting a deal that you can flip to him. But you don't need a big spread. You don't need a big spread.

Shavon: Well, that's good to know because that was one of my concerns.

Lance: And that's what, that's why I put this in here because people, you know, they say, I can't find anything for $25,000 a door in LA. Well, you won't. But here's… So here's how you look at it: you figure out what the market cap is and then just get a, you know… try and get 1% above that. That help you?

Shavon: Yes, that is definitely helpful. Now, do you think, though , that those investors will look at that and think, oh that's a good deal, or do you think we have to spend more time explaining the vision to them because the numbers aren't as big of a spread in that situation?

Lance: No, it will look like a good deal to them, because it's gonna be… When you look at the different price, the price per door, you know, that deal in California instead of buying it for $25,000 per door, you're probably paying $60,000 per door or $70,000 per door. And, you know, you're gonna be able to offer it to them for… You know I'm just making the numbers up now. If you have it under contract for $60,000, maybe you sell it to them for, I don't know, $65,000 a door. But it's gonna be a good deal even with that small spread because the pricing is gonna be different. Go run an example for your exercise, you should go to LoopNet this week and pull some LA deals and just play around with a 1% spread in the cap rate and see how it changes the price of the property.

Shavon: Okay.

Lance: Yes.

Kevin: Kev here.

Lance: Hey, Kevin.

Kevin: It's kind of… That little bit with Shavon, being down here in the Los Angeles area. The thing that… The most important thing I've seen this evening is the fact that you can pull that information offline, boot that, get your actual what you can get. You're able to actually put together an offer within hours to tie up the property. Most people don't write offers. 90%, 95% don't write them because they're fearful. This allows us to actually put something together, on paper, to submit to a broker which is gonna treat you totally different when they have something in writing. And, you know, it shoots you to the top of the list as far as to a buyer. I mean, to a potential seller. But, you know, the thing is my concern with the cap rates here in Los Angeles, Long Beach, or any other cult communities which are very low right now. I'm talking about anywhere from 3 to 5% on average and the key that a 1% spread can still yield you enough spread to get to a buyer and make a deal. That, to me, right there is the icing on the cake. And just to answer her question again with the fact that your buyer is sophisticated and they know what a good deal looks like when they credential a property. So, I don't think that's gonna be an issue

Lance: Precisely. Yeah, precisely. I mean it's… Whether they look at it in terms of price or price per door, it's gonna look like a good deal.

Shavon: Okay.

Lance: And that's… Kevin's spot on. Kevin's spot on. Alright, did that help you, Shavon?

Shavon: Yes, that was very, very helpful. Thanks to both of you.

Lance: And Kevin's right. I mean, the thing is… here's a thing I've gotta guard against for a lot of people, because I know that because I'm one of these. I'm a analytic personality, which means I love to run the numbers. And analytics like to analyze. We like, you know, spread sheets and a matrix and risk, you now, risk, Monte Carlo risk analysis. And can analyze a deal down to the fourth decimal place. The problem with analytics is, that's all they do is analyze. And they never pull the trigger. You know there's … You guys have heard of the saying aim, ready, fire, aim, ready, fire. In entrepreneurship, no, it's fire… ready, fire, aim. Ready, fire, shoot, shoot. You know, like Kevin was saying, get offers out there because until we get an offer out there we don't even know if they're really gonna be interested in the price we're willing to pay for it. And so it's all theoretical. But it's making the offer, making the offer. Kevin's spot on. Alright, let's see. Bruce, you had a question about market caps.

Bruce: Yeah. How big an… you know, you say compare the market cap for the project you're looking at relative to the… or compare the cap rather to the market cap. But how big an area does it encompass. I mean, I find stuff that's way out of the market cap, but I don't know whether… I mean, you're talking about analytic people, that's me. I ran numbers for 30 years and what the problem is… the market doesn't leave a lot of gaps. There's, you know, there… in the informational age we're in, people have access to the same information. If you find a project that's at an 8% cap, isn't there a reason it's at 8% cap when the market cap is at 5%. Don't all the investors know about that? I mean, obviously…

Lance: Your question, your question. Let me rethink your question, 'cause I get that a lot. Why… Let me state it this way. Somebody would ask… I used to be this way. I used to ask this question. I'm an analytical. I ask this question: why would somebody sell me their property at a discount?   That's really the question you're asking. Another way, you know, because you're saying, why would someone sell it at a higher market cap, which mean why would someone sell their price at a discount? The answer is, I don't know. More importantly, it doesn't matter, because they do. Now, I could give you a whole list of reasons. It's, you know, I bought a property one time form a couple who were getting divorced. They just wanted… and they both co-owned this apartment and they just didn't wanna be... They didn't wanna be in business together. They didn't wanna be in life together and they wanted to dump it. The property was perfect.

I had a school teacher, sold me his property. He just wanted to move to the country. He was willing to take a hit on it. I had someone else needed cash. So, all these levels of motivation, you know, there's always different motivating factors that create, I guess, what you'd call an inefficiency in the market. So, it leads to deals. I mean, right now, you could have a perfectly good property that someone needs to dump because he got so hammered with his other parts of his business, he needs to raise cash to bail out something else.

Kevin: I got it. That's what I was expecting you'd say and that's the opportunity we have right now because, particularly because of the tough economy, right?

Lance: Yeah, exactly. The property… There's nothing wrong with the property. Yeah, but there's something wrong with the ownership. Most of the time, my experience is, when you come across deals, it's not a problem with the physical property, it's a problem with the ownership. They've gotten in some kind of distress and they've given up or whatever but it's… you're solving that problem. The ownership problem.

Kevin: Okay. That answers my... Thank you.

Lance: It's a great one because that held me up for the longest time form getting started. I thought, you know, why would somebody sell a property at a discount? Don't worry, they do. They've been doing it for hundreds of years. Just… stuff happens. That held me up for the longest time. Aright, Chuck you've got a… yes.

Teresa: Hi. This is Teresa.

Lance: Hi, Teresa. How are you?

Teresa: I'm good. How are you tonight?

Lance: I'm great.

Teresa: Lance, I had a quick question for you. I recently signed up with a boutique brokerage firm and the broker sent me two deals. And one is a REO and both deals, they didn't have a asking price. And I emailed the broker back and asked for the market cap rate. So, I wanted to see if you could give me some pointers on how to analyze deals when there isn't a asking price. The broker said that the price would be determined by the market.

Lance: Okay. Here's what you do. And you know what? You know what, this is actually becoming, you know, not common but it's not uncommon. You just do what I showed. You figure out what market cap you wanna buy it…what cap rate you wanna buy it at, it's 11%. You figure out what the NOI is. Figure out the NOI and divide it by 11%. Make your offer.

Teresa: Okay. And then the second question I had is, how does the broker or the seller or the bank determine how much earnest money that you have to put down to get that property under contract?

Lance: That'll be next week.

Teresa: Okay. Alright. Thank you.

Lance: Great question. We talk about the offer. That'll be next week.

Teresa: Okay.

Lance: Now I'm gonna go… I'm switching up here for a second. I wanna bring up something her because I have a question from Chuck. Teresa that was a great question too. Thank you. A question from Chuck: what happens when interest rates go up? And I want to show you guys… Now this is not part of the planned curriculum but I wanted to show this to you guys. I gotta bring this thing up real quick. Let's see. One second. Bear with me. Just one second, 'cause I've gotta… I think you're gonna find this very interesting. This is specific to our times right now which is opportunity. Okay, so, got this front back up. Open this up and let's make sure you're seeing my screen. Okay, now you are. Alright, so, Chuck… And again, Chuck's question: what happens when interest rates go up? Let me show you something real quick here. I'm gonna draw a chart, XY chart. And the x axis is time and the y axis is percent, either interest rate or cap rate.

Now, typically what you'll see… If the blue line is interest rates and the red line is cap rates. Cap rates pretty much track interest rates, so this is… The red is cap rate and the blue is the interest rate. And interest rate is long term interest rate, because apartments are competing with things like bonds as income producing vehicles. So, if interest rates are an income… income invests are coming down. And the market cap rates… I should make this distinction. The market cap rates are gonna go down. Alright, so what's been happening? We've had, you know, over the last 18 months, interest rates going down to record levels. Okay? And let's just draw distinction right here between the past and this recession we're in. What we've seen though, market cap rates have gone up. Now, it's a little bit out of scale, but I'll make the point here. So, now the spread between the market cap rate and interest rate has gone up. Why is that? Why is market cap rate deviating now from the way it normally operates for decades and decades? Because there is fear in the marketplace right now. This is another way of answering Bruce's question. There are all kind of crazy scenarios going on that people have to dump their property at discounted prices, because either they're fearful that they can't get financing on it, they need to sell it… they need to dump a property to raise cash to offset some other portfolio losses. For whatever reason, prices... the per door prices have gone down which means the market cap rates across the country have gone up. The market cap here in Houston, you know, 18 months ago was 8%. Now it's 9%. Interest rate is also the cost of money. Now, this is not a course on buying and holding property, but when that spread between market cap rate and interest rate grows, that means there's more cash flow than ever being made on these properties. They're cash cows. That's significant to you as a wholesaler because that's what your buyers are buying into. That's what the piranhas are looking for.

They see the spread and they know that spread is gonna collapse at some point when interest rates start coming back up. Coming to Chuck's question, the cap rate's not gonna go up anymore. When interest rates start coming back up again, prices are gonna, actually maybe in the context of inflation. Prices are gonna go up; cap rates are gonna go down and there's gonna be a squeeze of the spread. So, right now where the piranhas are coming from is they're out looking for that. That giant spread. And that's why you guys are on this call learning how to wholesale flip deals. That's why the piranhas are out there. Big piranhas too, hedge fund. So, that was a little bit aside but I think it's a very relevant point for you guys to understand what's driving a lot of the economics in the current market.

Okay. So, with that…

Chuck: Lance?

Lance: Yeah.

Chuck: This is Chuck. You were… that's right along the lines of what I was thinking about, you know, and you're not gonna learn the market is sort of that anticipating getting out of the hedge, I would say the cap rates are getting out ahead of what they expect to happen.

Lance: It's the abnormality. It's fear and uncertainty in the marketplace right now. That's what's driving it. That's what's driving it.

Chuck: I mean, interest rates are bound to go up sooner or later though, aren't they?

Lance: They gonna go up… Well, that's a whole other discussion. They're gonna go up rampant here in not too long. It's gonna be… I think it's gonna be huge hyperinflation, but yes, they're gonna go up. I mean, we're at 50 year lows right now, so they have to go up.

Chuck: Alright. Thanks a lot.

Lance: Great point, Chuck.

Chuck: What do I do? Do I hit star six to mute again?

Lance: Yeah, that would be fine. Great, great point Chuck. Great point.

Segment 4, Section 3

Let's jump into finding these deals because you guys are a bunch of pirahnas. You keep asking these questions about dealing with brokers to get the deal. So, let's... how do we go find them? I got you all excited about it, now how do we go find them? And this is all about creating deal flow. Your reference here is gonna be module 4 in the home study system. First of all I need to define, what are we looking for? Well, it's an intersection of two things. Alright, we've got… we've got to make sure these things interact because they don't always… Intersect. They don't always intersect.

Number one, we're looking for a motivated seller. And number two, we're looking for a good deal and I've already… We've been talking about what a good deal is: the cap rate is greater than the market cap. These two don't necessarily always go hand in hand. You can have a motivated seller who's willing to sell, and is very anxious and is willing to even let it go for the price of the mortgage, but if they refinanced it for too much money 3 years ago, the property may be upside down because it's now worth less than what they owe on it. And it's not a good deal. Okay? That's why I have these two criteria: motivated seller and it's a good deal.

How do we find them? Let me tell you how not to find them. This is not like in residential where we're gonna hang bandit signs. You don't see too many we buy apartment signs. I don't know if I've ever seen one. But it's, you know, we're not gonna use those techniques. We're not gonna be hanging bandit signs. We're not gonna be running classified ads. This is a little more targeted than that.

I'm gonna teach you five ways to generate leads on these deal flows. Alright, five ways. There's LoopNet, which we've been talking about and I'll talk more about it here in just a moment. Brokers, direct mail, bird dogs and other. Now, I'll tell you right now, you're two primary sources are brokers and direct mail. Brokers and direct mail. But we're gonna step through all five of these. So, you have LoopNet, brokers, direct mail, bird dogs and other.

Let's start with LoopNet. You guys should already be experienced with LoopNet. I had you on there for your field assignment. LoopNet is the listing of commercial deals… Not deals, commercial properties across North America, US, Canada, Puerto Rico. And I'll tell you right now, LoopNet… It's gonna be hard to find good deals on LoopNet, because LoopNet is kind of like the elephant… What do they call it? The elephant graveyard. It's where the old elephants go to die. Well, LoopNet, meanwhile is where brokers put the deals they can't sell to their preferred buyers. Brokers, when they get a good deal, they have a buyers list. And the first thing they do is email their buyers list before they do anything on LoopNet, because those buyers are people they know, they have a relationship with. And that's where the deal goes first. A property listing is gonna go to the buyers list first. If that doesn't yield results, they often will put it on LoopNet. Now, I don't wanna tell you there's no deals found on LoopNet, because we've done deals off of LoopNet, but I don't want you to become discouraged if you go out and say, the only way I'm gonna look for deals is LoopNet.

First of all, don't do that. If you wanna get discouraged, you'll say, this stuff doesn't work and you'll quit. I'll tell you right now, you cannot make a living, I don't believe, with finding deals on LoopNet. What LoopNet is good for is what you're doing right now, is practicing you're deal analysis by sizing up a market. You know, if you're interested in… Oh, just one moment. I need to clear this line. If you're interested in sizing up a market, say Memphis, Tennessee, you can go into LoopNet and pick multifamily in Memphis and look at all the listing there and some sense of what are properties… You know, what's the asking price? What are the rents like? Etcetera. You can do a little bit of, you know, spying, get some assessment. But the mains thing… But really what I want you to do is use it as your practice field to practice analyzing deals. That's why I have you doing it from last week. I'm gonna have you do it again this week, because you get very, very proficient very quickly. It allows you to practice some deals.

What LoopNet is best at, besides practicing, is finding brokers to contact for deals, because what we can do is… Let's say we're looking for deals in Memphis. I go type in multifamily. I go type in Memphis. I can look at all the deals being listed, all the properties. Check out the class Cs, if I'm interested in class Cs in Memphis then I look at the brokers listing the deals and make contact with him and start the relationship. And I'm gonna explain how to do that precisely here in just two more slides.

Besides LoopNet, there's some LoopNet competitors online. www.commercialwebsource.com, www.commercialIQ.com, www.realprospex.com, P-R-O-S-P-E-X. www.butincomeproperty.com and then also title companies. Title companies will, in some states, give you a list of… Well, I should say, they'll give you a list of owners. So, in terms of finding deals that really shouldn't be on there. That'll give you list of owners names for contacting sellers which we'll talk about her in just a moment. So, these are the online sites but you're not gonna… I mean, you're not gonna find, you know, a lot of screaming deals on these sites. They're great for practice. But we have found deals, so I don't want to totally discourage you.

What I do wanna talk about is brokers, because, like I say, brokers and direct mail are the two primary ways of getting preferred access to the real deals. And again the way we're gonna find them, when we bring up the deal on LoopNet, we're gonna see who's listing it and we're gonna contact that broker. Now, here's what I want you to think about is this: is the… Let me check something here. Okay. The… You're gonna call the broker based upon the LoopNet listing that you found them under. Now, I just said, you're not gonna find, probably not gonna find a good deal on LoopNet. So, you might say, why are you gonna call about that listing? The listing is just the Trojan horse. It's just the reason for calling the broker. We're gonna use his listing, his or her listing, as the excuse for calling them up to develop the relationship. Alright? So, it's just a Trojan horse. We call this broker.

Now, when you call the broker, don't worry because we're gonna use a script. We're gonna use a script. Before I explain the script to you, I wanna make it clear how powerful this script is, because here's one from… This is Dan's son Dylan. And Dylan calls the brokers in their business. Dylan's 18 years old. Here's what Dylan said about the script, and I'm telling, sharing this with you guys because I want to work on your mindset that mere mortals can do this, because Dylan wrote, the scripts are awesome. I'm 18 years old and I can talk to brokers like I've been doing it for years. I even show them up sometimes. If a kid like me can do it, anybody should be able to.

I couldn't have said it any better. This script… and the power of this script is in the jargon, which I think it was Kevin, upfront mentioned… The jargon is gonna help you establish rapport and it's gonna establish credibility for you. Now, here's... I mean basically, here's what we're gonna do, I wanna show you the script here in a moment. You're job: find that listing on LoopNet, review it, you know, so you can speak about it, ask questions about it, take the script, call the broker and follow the script. Alright, that's it. That's the recipe. Follow the script and then it's gonna be follow up, follow up, follow up. Let me tell you right now before I even show you the script, this is not a one night stand. This is not a thing where you're gonna make one call to a broker and the script is so magical he's gonna send you all these deals after one call. He will start sending you deals. He or she will start sending you deals after that first call, but if you don't maintain contact and you don't do follow up, you're gonna be like a flash in the pan and they're gonna drop you. The whole objective of this process… This costs nothing to do. The whole objective of this process is to get on the broker's radar so they are sending us their preferred deals.

And I will tell you, here's how you know you're on their radar: you're gonna get a call like this, hey, Lance, I just walked out of a Thursday morning staff meeting. I've got a deal that's on the table. It just came out. It hasn't even been listed yet. I'm gonna email you the set up sheet. I want you to look at this deal this afternoon. You need to make an offer on it tonight. When you get those kind of calls, you're on the radar screen. You're now on the buyers list. And I'm telling you, it's not difficult to get to that point. You follow what I'm gonna teach you right now.

So, to begin, let's go to the broker script. And this is in your home study system. Put it on the screen. Okay, alright, you guys see it. Okay, good. Now, let me scroll up a little bit here. You're gonna call the broker. You have a LoopNet listing in hand and you're calling. That's the Trojan horse you're using to call this broker. You're gonna call up the broker and they're gonna respond, hi, this is John Doe. And you're gonna say, hello, this is Lance Edwards. I'm a local buyer and I saw your listing on LoopNet and I had a few questions about it. Now, if you're…Let me say this, if you're not local, don't say you're local. You just say I'm a buyer. I'm a buyer and I saw your listing on LoopNet and I have a few questions about it. And they're gonna answer, great, what do you want to know? Now, there is a…

Our objective is three fold here. It's just a two page script, by the way. It's just two pages. There's three objectives. Number one, through this first contact we wanna build rapport by demonstrating that we're serious and that we know what we want. Part of the power of talking to brokers is knowing what you want and being able to communicate it with precision, because most calls of first time contacts that a broker will receive is by someone who's gonna basically say something like this: hi, my name is John Adams and I'm calling looking for deals. Okay, John, what kind of deals are you looking for? Oh, I don't know, good deals. End of script. I mean, I may be taking a little off the end there but that's… it doesn't get much better than that. I mean, just total amateur hour and so the good news is, the bar that we have to jump over in order to establish our rapport is very… set very low. But this script is gonna have you leaping over that. So, that's objective number one is to build that rapport.

Number two, we wanna get on their radar so they're gonna feed us deals that meet our parameters. They're gonna know our parameters because we're gonna tell them in this script. And the more precise the better.

Third objective, I am calling, you know, I am calling about this LoopNet listing. Now, the chances are that this is really a deal are not that great. But I am gonna qualify to see if this is a deal. And if it is a deal, I'm gonna get them to send financials. Alright? So, let's continue on. So, I'm asking about the deal. I wanna ask… let me scroll back up here now. I'm gonna ask him, is the information on LoopNet up to date? Is the occupancy 80% as shown or has it changed. In that sentence right there, I've communicated already, hey, I have read the information on LoopNet. And by repeating back the information that's on there, I've told this person, I'm not gonna waste your time asking for information you already put out there. I respect your time. That's what I'm communicating in this first sentence, implicitly. They're gonna answer, well it's actually gone down to about 75%. The way you respond is you always say… you repeat the answer, 75%? Okay. 75%, that's great. You repeat the answer and then you acknowledge it. This is just, you know, phone etiquette, to help establish rapport. Alright?

Next question, from the rent amounts, I assume this is class C, is that correct? What did I just communicate right there? I communicated I know what a class C property is and I can recognize it from the rent amounts. This is my second question. Boom, I've established credibility by this point already. They assume I've been doing this for years on the quality of the questions that I'm asking. They're gonna answer, yep, that's right, it's a solid C.

Next question, how many section 8 tenants does it have? Boom. Another one establishing credibility, because if it's class C, you know, high probability it's gonna have some section 8. Dan's deal was all section 8. Again, communicating credibility. They're gonna answer, about 10.

This next one it says, any Katrina tenants. Strike that. That was my Houston script when we had the residents from the Katrina… the evacuees, so scratch that one. Alright, I'm gonna scroll down a little bit more. Make sure you guys can see this.

Okay, it says, next question, how would you describe the area, C or D? Now, one thing last week we talked about, you know, class C. You can have a C property in a D area. You can have a C property in a B area. Actually, a C property in a B area is like cha-ching, because we can reposition a C and raise the rents to fit with the B area. But if it's a C in a D area, don't do it. We don't want D properties or D areas. That was a quick aside. Back to the script. What I've also communicated here is, I just asked him a moment ago, is the property a C? Now I'm asking about the area. Again, I am implicitly telling him, I understand the difference between a class C property and a class C area. And every one of these is a laser shot to establish rapport and credibility. And they're gonna answer, it's a C.

Alright, now, this next paragraph… this is gonna be the first of two times I'm gonna communicate with precision what I'm looking for. I'm gonna say, I'm looking for class C properties with a value play to them. I want you guys to check the jargon that's laced into this sentence. I'm looking for class C properties with a value play to them such as deferred maintenance, improved management, repositioning, new tenant mix or rehab. What do you think are the value plays for this property? Again, I'm demonstrating I understand the industry and I'm gonna get him to tell me what the value plays are, because remember I said up front we're looking for value plays. I'm sorting through the trash to find the treasure. So, let him tell me what he knows about it because I can assure you the broker, if it's his listing, will have done his own assessment of what the value plays are. And they will tell you. They will tell you. So they're gonna answer, you know, whatever they're gonna answer. Saying something like it has some deferred maintenance. It needs a new roof and some of the vacant units could stand a make-ready. But I personally think it needs better management.

Alright, next, what would you estimate the average cost per door to be for a rehab? Recall on your deal analysis sheet… Let me scroll this up. One of the line items is, what is the rehab gonna be, because we need to know that to assess our cap rate. Well, the easiest way to figure out the rehab cost is to ask the broker. And the way I asked him was what you estimate the average cost per door to be for rehab? Because they're thinking per door. They'll say probably 2 to $3,000 per door. Again, I'm using jargon.

Alright, continuing, page two. You're gonna say this, whatever cap rate… Now remember, starting off tonight's session we had several people make a comment, they always show proforma on the LoopNet sheets and the cap rates are always higher than what I calculate. That's right, because it's based on pro forma. So, this one is where we're gonna kinda zing it right between the eyes. So, I see the 9.2% cap on pro forma. What is the cap rate on actuals? Right? Now we've really demonstrated we understand the game. And they're gonna dance around this. And they're gonna say something like, well, it's something less, but it should be higher with better management. They're gonna keep selling on pro forma. But you just now, you know, you just explained, I understand what's going on here in a very professional way.

Alright, now you've established rapport. All you've been asking about is the property. Now, we're gonna dwell into what's going on with this seller. What's the seller's situation? What kind of problem are we trying to solve here? This is going back to Bruce's question, why would somebody sell at a discount? It varies because of ownership problems or seller problems. So, you asked the question.

Next question, why is the seller selling? And you ask it just like that and then you shut up and listen because they're gonna tell you. I mean, they're not tied to this seller, they're tied to earning a commission and moving this property. And the brokers are gonna tell you whatever the answer is. For example, if they're moving out of state and don't wanna deal with it and I don't think they have the capital for the rehab. I mean, they'll tell you warts and all. They just wanna get the thing sold. Alright, so at this point, again, I had a LoopNet listing. I knew what the price they were asking was, the price per door. I now have an estimate of the rehab cost. He just told me in page one. On this deal, if the price plus the rehab is less than $25,000 per door, I'm gonna proceed on this deal and qualify it and get some financials on it. So now, if it is less than $25,000, I'm gonna say… scroll this again. Say, well, maybe it's the type of project I'm looking for. Can you email me the financials? And they'll say sure. And they may say, you know, I need you to sign a nondisclosure. What's your email address? Now, the non-disclosure simply is gonna say you're gonna agree not to reveal that information to anyone else. Obviously you can review it, but they're standard and you can sign it. It'll be just for that deal. Just for that deal. It's really very standard practice.

Now, if on the other hand, you know, based upon if he told you about rehab. If the price for rehab… plus rehab is greater than$ 25,000 on this LoopNet deal you're calling about, then we wanna kind of exit the conversation. We're not interested in deal. We want to exit the conversation. But again, we're gonna take one more bite of the apple and telling exactly what we're looking for. And to exit this deal just say, well, this deal doesn't quite fit what I'm looking for. Let me tell you the type of deals I'm looking for. And let me go up here. Again, this is the second time. This is gonna be more specific. I'm looking for class C properties of 50 to 200 units with a value play to them such as deferred maintenance, improved management, repositioning, new tenant mix or rehab, including vacant properties. I am not a retail buyer, but instead am looking for something that I can add value to and be rewarded. My target price, including rehab, is less than $25,000 per door. No war zone areas. Do you have some like those? That precision in the second time is what really establishes yourself. It also made it easier for this broker to visualize what you're looking for, 'cause they can… With that kind of precision, they know exactly what kind of deal they can send to you. And they will mostly likely say, yes, 2 come to mind or 3 come to mind or 1 comes to mind, I'll email them to you.

The last thing you do, you're gonna ask them to add your email to their dealer list, because they will email listings out. Even get on the preferred buyer list and make sure he has your email to add to his contact list.

Alright, now, common objections and turnarounds. There's two. Oh, by the way, first of all, let me… On that paragraph I just read to you: I'm looking for class C properties. Se towards the next to last sentence, I see if my target price including rehab is less than $25,000 per door. Notice… Listen, you just read this, verbatim. You modify it if you're looking for something different. But what you do not say, what you never, never, never, never say is, I'm looking for 11% cap deals. I'm looking for 10% cap deals. You never say that because it will always illicit this type of response: Well, if you find one of those, call me; you can't find those kind of deals. Okay fine, but if you ask them for something that's less than $25,000 per door, they can put their mind around that, even though it means 10% cap deal. Alright, it's just a quirk but don't ever tell them you're looking for a 10% cap deal or an 11% cap deal.

Alright, back to these common objections and turnarounds. You may get a question, how much do you have for a down payment? Now, let me say this, everybody pay attention, because I know what's going through your mind is, what if they ask me about proof of funds? That's a big fear that holds people back. I will tell you right now, when you follow the script, 99% of the time they're never gonna ask you about proof of funds. They're not gonna ask. They never asked Dylan, the 18 year old kid once about proof of funds or experience, not once. If the 1% you do get asked, how much do you have for a down payment? We have… And change 25% to 30%. We have 30% down payment funds for the type of deals I described. Period. The key words here are "we" and "for the type of deals I described," because you're implying that you're a group. And because of the precision that you already communicated, they're gonna assume type of deals… you're out hunting for deals in a group, because you've been so precise in what you're looking for, you're a pro and you're out with a laser looking for particular deals.

It is… I'll tell you right now, it's because of that precision, 99% of the time they're not gonna ask. So, get that out of your head. Don't, you know, don't put that in your head. Now, if you find you get that question, you get it more than once per 100 times, I will tell you… and you tell me you're following the script, I will tell you the reason you're getting it more than 1 time out of 100 is because they're picking up on something in the tone of your voice which implies uncertainty or lack of confidence. They're just sensing that. So, when you make your broker call, and when you make your first one, here's what I want you to do: call while you're standing up. Matter of fact, I'm standing up right now talking to you because I get a better tone. You stand up and talk from a point of confidence. I want you to recall the last time you just felt unstoppable in any part of your life. It could have been in little league, it could have been with your kids, it could have been at school, it could have been at church, your job. You just recall the last time that you felt unstoppable, when you made it happen. Give yourself a yes, get in state, pick up the phone and make the call, because that confidence combined with this script will blow them away. Okay.

Second objection. If you get this after you've gone through this process and you get the response like, you can't find deals like that in Houston or Memphis or name the spot, don't argue with them. Just say, oh really? Thanks anyway. And move on. There's too many brokers out there. You're not this very often, but if you get a jerk, move on. Don't worry about it. Okay, that's the script. Two page. Two page.

So, we'll go back over here. Not there. Not there. Well, let's see. One moment. Okay, there it is, sorry. So, that yellow box at the bottom of your screen which I just brought back up and it says, do your mindset routine and follow the script. Now, the reason the mindset routine is important is because, just like I was demonstrating, you need to be in state. You need to get in a state of confidence when you make this call, especially your first one. The other thing I want you to do on your first call, broker call, I want you to imagine what a successful call feels like. Like, you know, imagine high fiving yourself and you just had a successful call. Imagine what it's gonna look like, you know, five minutes from now. What it's gonna feel like. What it's gonna taste like, smell like, the tingling you're gonna feel after your first successful call. Imagine that before you pick up the phone then get in state, because that's what's gonna put you through. That's the mindset technique you're gonna use. But you need to be using your daily mindset routine to reposition yourself, build that confidence and maintain yourself in state to make this call.

Segment 5 – Section 3 (cont'd)

So, here's the cookbook system. Here's a brief summary of what I just talked about. This is the step by step. What you're gonna use is LoopNet and those other sites I referred you to. These other online sites, that's how you get access to brokers. You're gonna take the broker script and you're phone and you're gonna go the steps 1, 2, 3, 4. You're gonna pre-screen the deal through LoopNet, plus those other sites. Number 2, you're gonna identify those brokers who market those deals. Number 3, you're gonna call the broker using the broker script. And number 4, you maintain follow up with your brokers. And this is what I want… this last point I wanna talk about on dealing with brokers is the follow up because this is, besides the script, this is the other key part. This is how you stand out. This is how you quickly stand out, very rapidly get to the front of the line with brokers is in your follow up. Because one thing we know, and you can relate to this, I'm sure you think about it, people if they interacted with you. There's a saying: how we do anything is how we do everything. How we do small things reflects how we're gonna do the big things. So, if we do the small things consistently and as we said we would with a broker, we are training them to expect us to be able to deliver.

So, for example, if I say to the broker, I'm gonna send you an, you know, an email describing what I'm looking for and I'll send it in the next 15 minutes, you better have it there within 15 minutes. And you need to keep finding opportunities to keep doing those little things like that because we are training that broker to come to expect us to be able to deliver on the small things, so when we have, making an offer, implicitly, at a subconscious level, they believe, they know that we're gonna deliver. We're training them that we know how to deliver by doing it with small things. That's why the follow up is so important.

So, for example, I gave you some examples on the screen. Ways to demonstrate your ability to deliver. When they send you something… If they email you the non-disclosure agreement, you wanna email back as soon as you get it and acknowledge that you received it. You want to always be responsive to anything they send to you or anything they ask you. You need to convey a professional image. And like I say, the whole trick is find opportunities to make a small commitment and deliver on those commitments, because you're training them and they don't even realize it. We're training them that we know how to deliver.

Now, the other thing to train them. We just did the script. We told them twice what we're looking for. If they send you a deal that doesn't meet the criteria you told them, then you're gonna train them again by politely pointing out, hey this was not exactly what I was looking for. Let me tell you again what I'm looking for. And repeat it in an email. That precision. Okay. So we're training them implicitly. Subconsciously, they're being trained that they can count on us to deliver. We deliver on our promises. And number 2, we're training them on the type of deals we want them to be sending us on a preferred basis. That's how we're gonna get laser deals from the preferred deals that are laser focus what we're looking for. And when you follow that… this is just a process. It will rapidly get you on the radar screen.

Now, this one last bullet point on here. Stay in touch with old contacts. This is how Dan found his deal. He… A broker and he had built a relationship some time back he hadn't [INAUDIBLE] in a while. He actually… he was listening to the home study system. And in there I was talking about maintaining, you know, follow up. He said, you know, I sent my letters out last week. I didn't get a response to that. I 'm gonna try… I'm gonna call one of these old brokers. He called the old broker that afternoon and it was that old broker who said yeah. You know, he said this is Dan Badinghouse here. I wanted to touch base. I'm still looking for deals. Remember, I'm looking for this. And the broker said, as a matter of fact I know about a deal that's coming up, I think, this afternoon at five o'clock that might meet your criteria. And that's how the deal came about. That follow up with an old broker. So again, I got in the yellow box, consistent actions speak volumes. All of this costs nothing. Zero cost to do these things but it has to have the discipline and the process to track through… to basically train these brokers on what to expect.

Last point on brokers, I want to caution you against this and this is natural, don't place them on a pedestal. I mean, many times we're coming in and I understand if this was me, we're coming new to this industry. These big ticket deals or multi-million dollar deals or million dollar deals. And we're talking to this broker and, you know, they say, you know, they've got 15 years of experience and we feel so humbled next to them that they've been doing this for 15 years. Let me tell you. Now, I'm gonna tell you and you're gonna have to experience it yourself to feel it in your core. By the time you finish this program, you're gonna know more about apartments than most brokers. I'll say that right now. Now, you guys are taking my word for it at this point. If I had some graduate students on here they'd tell you… they'd back me up on this. They'd tell you. But you saw, well, Dylan, Dylan's testimonial a moment ago. Let's go back here. Third line, I even show them up sometimes. That's Dylan, 18 years old. And that's the case. You're gonna understand this business better than most of them, because…. Here's what I'm gonna explain to you, a little insight. Just because someone has 15 years' experience doesn't mean they have 15 years' experience. They might have been doing this for 15 years, but they may have one year of experience simply repeated over and over 15 times. At the end of the day, they put on their pants. They're just like you and me. But at this point… and when you finish this program you're gonna be more equipped than they are. So, I want you to operate in that confidence. For now, again, you're just gonna have to take it on faith. But you're gonna be able to interact with these brokers.

When you go out there and do it and you talk to your first one, which is gonna be this week by the way, hint, hint, I want you to know that if 18 year old Dylan can do it and show them up, other mere mortals can do it. The objective is not to show them up. The objective is to act comfortably and in confidence that you can do this. Alright. With that, who has questions and comments on talking to brokers? Hold on. And while you're fixing your questions, it's top of the hour and let me quickly give the homework assignment for anyone who has to go, because that's my promise. Okay. Alright.

Here's the homework assignment: I want you to listen to module four, which is about finding deals and I want you to listen to modules 3a and b in the home study system. Now, module three is all about raising private money. I want you to listen to that after you finish four, 'cause your most important thing is deal flow. Raising private money is gonna be important… become more evident next week and in the following weeks. We're gonna start module 3. I'm gonna start you reading it or listening to is, or you can read it in the transcript if you want to this week. If you wanna… some modules of three, if you're gonna read those it's fine but, you know, do at least 3a and b.

Number 2: I want you to practice analyzing three more deals on LoopNet. And use your deal analysis sheet. I want you to get proficient with those sheets and proficient analyzing deals. Three more deals.

Alright, number 3, here's the big one. It's gonna be big for some of you, call and speak to at least two brokers. Now, I know you just kinda, you know, puckered up. That's okay. Take your script. The only thing I want you to do when you call these brokers, I want you to adopt this attitude. This is what got me started. Write this down. Say this to yourself. It's only practice. It's only practice. Once you adopt that attitude it takes all… It takes a lot of the pressure off. You know? The worst thing that can happen… The worst thing that can happen is that you'll get better the next time. It's just practice. No one's expecting you to score. No one's expecting you to get a hit. It's just practice. I just want you to get up to the plate and take a swing, alright? But I know, once they get you up to the plate to take a swing, you're gonna be on base. So, I want you to talk to at least two brokers this week. Bring your comments and questions next week. And if you haven't started yet, get your mindset routine started with your quick start audio from realcoachtrial.com. Alright, so that's the homework assignment, the field assignment.

So, now, who has questions, comments about talking to brokers? Press star six or type one in. I hear somebody on the line. Who's on the line?

Shavon: This is Shavon.

Lance: Hey Shavon.

Shavon: Hi. I have a question when it comes to getting on the buyers list, like their email list, as far as their properties, because, of course, they're trying to, you know, get as many people as possible to view their properties. Now, you know, the question is, if we see something that we like, you know, should we just say, okay, let's move forward. Let's get this. Let's go. Or is there a better protocol to handle that? Because of course if you see quote, unquote a deal, there's other people that will see the deal as well.

Lance: Well, you wanna…what I understand of the question you wanna… Yeah, if you see a deal, get an offer. Make an offer on it. If it meets the criteria make an offer on it immediately, a written offer.

Shavon: So, how long do you think… Like let's say if you see something that you like. I guess my question is like when you see the deals...'cause I'm analytical too, so I completely understand what you were saying earlier.

Lance: Yeah.

Shavon: Sometimes, I guess in a situation like this, being analytical could be a problem, because you need to move and move quickly.

Lance: Right. Let me speak to you as analytical, ‘cause I can hear… Your question is how long should you wait?

Shavon: Right.

Lance: Because that’ an analytical question. Actually, the optimum time, we’ve done surveys of this, Shavon. We surveyed 46,000 different real estate entrepreneurs and we found that the optimum time to wait and issue a deal is exactly 2 days, 6 hours and 7 minutes.

Shavon: Wow.

Lance: Does that speak to you as an analytical?

Shavon: Yes. When you were talking about that earlier I was like, oh my god, he’s describing me to a tee.

Lance: I know. I am one. I understand it. No, the answer is immediately. Immediately. Alright, you find a good deal… Now next week I’ll show you how to prepare the offer, the offer letter, but you’re gonna submit it immediately. What are you waiting on? There’s no… I’m asking a corollary question right now. This will come up. I know this will be asked next week. I’ll go ahead and preempt it. I get this question from analyticals. Well, what’s the acceptable rule? What’s the maximum amount I can offer below their asking price? So, you know, I get that, you know, a fair bit.

Shavon: I see.

Lance: So, you know it’s… The only thing… As an analytical, the only thing you need to understand is what I showed you about the NOI and the cap rate and using the formulas. Everything else is now entrepreneurship. This is about momentum and movement. You know, Einstein said nothing happens until something moves. So, it’s gotta be us moving. Abraham Lincoln said, all things come to thee who waiteth. Those things left over by those who were moving. So, you know, you just make an offer. That’s the answer. There is no time. Immediately.

Shavon: I think I'm gonna apply this to my gym membership too.

Lance: There you go. Yeah. Just listen. This is about… you guys hear me saying this, you know, all the time leading up to my webinar, it's about showing up. Another way of showing up is make an offer. That's an example of showing up. Show up and get in the game. Make an offer, because nothing happens until we show up. And if you know… I'm gonna tell you, you know, most properties are not gonna, you know, they're not gonna fly… Or actually, most of the properties you look at are not gonna meet your criteria and so now, the next level is put the offers out to see which one are gonna bite on to be worth even spending more time on. You're not gonna, you know… This is not a scenario where I'm gonna spend the next six months finding that ideal, perfect deal and then make an offer. Because if you follow that track, you'll never do anything. You have to, you know, I said earlier it's not, you know, ready, aim, fire, it's ready, fire, aim. Start shooting. Where your bullets land will tell you how to get on target. Okay?

Shavon: Okay.

Lance: I'm speaking to your little voice now, because I know what that analytical little voice, you know, it's resisting you right now. I had an analytical that was so bad on the apprentice program. I'll tell you guys just so you know, get in the program. Analyze the deal. Analyze the deal week after week. Analyze the deal. I said, man, make an offer. I said… and I got him to commit. Will you make an offer by next week? He said, I commit to make an offer next week. He showed up last week. Did you make an offer? No, there's one more thing I wanna look at in the deal. I said, hold on. Stop John. Not his name. I said John, here's the deal, you hear me? I'm talking to you, John. Yeah. You make an offer by next Monday or you don't come back, you're out.

Shavon: Wow.

Lance: That's what he needed. He needed that pattern interrupt. So, Shavon, you talk to a broker by next Monday. You gonna do that?

Shavon: Yes.

Lance: Now, if you're not, say no. But if you say yes, I'm holding you to it.

Shavon: Okay.

Lance: With your permission.

Shavon: Okay.

Lance: If you don't feel comfortable, I'll work on that for you. But if you wanna get in the game and be held accountable, I'll get you there if you allow me to hold you accountable.

Shavon: Okay.

Lance: Alright. That's your role.

Shavon: Okay.

Lance: Okay. It doesn't have to be a good deal either. It could be an ugly deal. I just want you to get on the phone and just practice.

Shavon: Okay.

Lance: Alright. Who else has a question out there? I heard a lady's voice. Did I lose you?

Bruce: Hey Lance, its Bruce.

Lance: Hey Bruce.

Teresa: Hello, Lance.

Lance: Oh there's the lady. Let me take the lady's first, Bruce for one second. Yes, ma'am.

Teresa: This is Teresa again.

Lance: Yes, ma'am.

Teresa: I have a question for you. When you sign a deal that you really like, do ever spend any time just trying to engage the broker to find out the price that the seller might be happy with before you put in the offer so you're not having to do multiple offers? Or do you strictly just go by your calculations, then you just start sending in your offers.

Lance: That's a great question. I mean, what you'll hear often… I don't have that in the script. I don't want you asking that question on your first call, but when you develop that rapport, the broker will use language like this, he'll say, I can deliver the property for this price, which means he thinks he can get it signed for that. And it's absolutely legitimate, you say, well, okay, I can see this ask price. What do you think it will go for? What do you think they'll accept? You can ask.

Teresa: Okay.

Lance: I don't necessarily like to ask because no matter what they say I wanna come in with something less and so I don't wanna botch myself out. You know, I might… But I'm certainly listening for them to tell me what they can deliver it for.

Teresa: Okay. Thank you.

Lance: You're welcome. You're welcome. Bruce.

Bruce: Yeah. I am still really in a mental dilemma here trying to figure out… I understand buying something where the cap rate is higher than the market cap rate. What I… Where I'm running into a wall here is for a class C at $25,000 and a class B at $30,000. I mean, I've been looking all week and I'm in Seattle and the outlying areas around Seattle. A class C is... I mean, if you can find something for $75,000, you're doing, you know, it's pretty unusual. So at what point does that $30,000 threshold go out the window? Is it inverse function between the market cap and the cap on the individual property? I'm just baffled as to how to do this in Seattle. Prices here are, you know, $100,000 to $150,000 a unit is real typical for B to C properties.

Lance: Okay. Well, then you're in a low market cap area. You're like in LA. You're a low market cap area. So, we need to set, you know, reset that price per door criteria. I mean, you just determine what's your market cap. And you do that when you talk to brokers this week. Ask, what's the market cap? Do you know what it is for example?

Bruce: Seattle is 4 to 5%.

Lance: For class C?

Bruce: Oh for class C... I'm sorry, 5 to 6% for class C.

Lance: So, you're looking for deals the cap rate's around 7%. Like maybe 6.5 to 7% and that's gonna help determine… That's gonna determine the kind of price that you're willing to pay. So, you know, if you take a LoopNet deal that's selling at… asking at 5% and you think the market cap is 5% then make an offer based upon a 6 cap price and that'd be your maximum offer.

Bruce: Okay. Okay.

Lance: Now, I'll tell you, I don't know what that will be in price per door. I'd have to do some math to it but that's the simplest way I can, you know, answer it quickly.

Bruce: Okay. I'll probably pester you again day after tomorrow.

Lance: Yeah, yeah, yeah, yeah. I mean this…It's a…I mean the way to show you how to figure out price per door. I just kinda thinking about a simple way to answer it, but the, you now, for right now, if you think the market cap is 5%, you know, price your offers based on 6% cap.

Bruce: Okay.

Lance: Does that help?

Bruce: Yeah.

Lance: Alright, cool. Cool.

Kevin: Hey Lance.

Lance: Yes, sir.

Kevin: Kevin here, in Los Angeles.

Lance: Yes, sir.

Kevin: I hope I can answer the question and also answer for myself because that's a good question for the California area cap rates. You know, too tough to say. Doors here are not a $30,000 or $40,000. We're around $125,000, $150,000 and in some cases higher, depending on, you know, what location that you're in.

Lance: Yep.

Kevin: But I think the question or the answer would be that it's pretty much all relative to your marketplace. I mean, it's like my ah ha moment was basically the fact that no matter what market, in my market, I can still make the same amount of money as if I was in a low market, because it's a high cap rate market.

Lance: That's absolutely right. See, that's why a smaller spread will make you the same amount of money.

Kevin: Yeah, exactly. That's the key right there. That 5, 6% spread is the same as a 5.5 to 8% spread, you know, because relative to your market that's the big thing. And I might get back to it [INAUDIBLE] we can also go to interstate and all over the country. So, that's another thing I hear a lot of people talking about. The back yard, which I think is easier looking for buyers. [INAUDIBLE] the buyers who are not in our backyard.

Lance: Right. Right. Somebody's making some noise in the background. Let' see. You can press star 6 on your phone. Thank you so much. So great, great. I mean, you're absolutely right, Kevin, absolutely right.

Alright, we had a question came in from Chuck, says what is repositioning? Alright, let me give you an example. Repositioning, the definition of it is essentially changing the image of a property, changing the impression. You know, let's imagine. Let's take Dan's deal. He had a deal that's 50% empty. It's been neglected for a long time. It may have an impression as an old, dilapidated property. May have an impression as just, you know, trouble associate with it. So, to reposition it would be what they're doing right now. First of all, first thing they did, they renamed it. They put a new name on it. They're making improvements to it. Those are improvement you can see from the outside. They're gonna increase the curb appeal. They're going to do some things on the inside, you know, make ready the units. They'll put new management in place. They're gonna hang a sign, new owner. So, what they're doing is communicating these simple things to communicate this change here. You're gonna have the new impression. When you hear this property going forward and its new name, it's gonna give you a new image. And so that's what repositioning is. It's making these, you know, new improvements. Not new actually. Modest improvements. Curb appeal improvements to change the image.

Segment 6 – Section 3 (cont'd)

The second way of generating deal flow is direct mail. Now, I wanna tell you right now... And I have you start with brokers, because brokers, you get access to them immediately. It immediately creates deal flow. It cost nothing. And I know it's the biggest fear most people face, so I wanna get you in the game. Shavon and everybody. So that's why I'm gonna have you address that fear first off. But the second source and I'll tell you the way I got started in my business is through direct mail. I've probably done, you know, an equal between [INAUDIBLE] generation, direct mail and brokers. But I got started in direct mail. I love direct mail. I'll tell you right now, the reason I love it is because there's essentially no competition. When you get a hold of a seller directly and you're speaking to them with no broker involved and no other… there's not other buyers around, you're talking straight to the source of the deal. You can get the best deal, the most creative deals talking to the seller, because you can assess, what is their problem? This is going to Bruce's question earlier on: why would somebody sell their deal at a cap rate higher than the market cap? I don't know. Let's ask and find out. 'Cause once I understand and I understand what they need to get out of the deal, then I can make it a very flexible deal and they'll be more flexible if I solve their problem. And I'm communicating with them directly.

Now, I'll tell you right now, we're working on a deal with Apartment Wealth Factory right now that came in. We're talking straight to the seller and this is a deal… I think the assumption on the loan is… I can't remember the exact numbers… 1.6 million. And maybe it was 1.8 million. He'll take $150,000 cash and let it go. That's what I'll be explaining next week.

That’s the kind of deals we’re looking for. Very low cash to flip these properties. So, direct mail is how we get access to these sellers. We’re gonna basically put together a letter, which I’m gonna show you and give you. A letter that goes to these sellers and essentially says, hey, I’m interested in buying if you’re interested in selling. And the beauty of direct mail is the seller’s gonna qualify themselves by the fact they’re gonna take this action: they’re gonna pick up the phone and call us. We’re not cold calling anybody. They’re gonna call us, which expresses some level of motivation.

Now, one more thing I’m gonna say about direct mail. And I know I’m gonna say this and it may fall on deaf ears, but nobody is doing direct mail. No matter how many times I preach, no matter how many times I talk about the deals we’re getting, people are not doing direct mail. How do I know they’re not doing direct mail? Because I’m sitting here in Houston, Texas. I own property… I own apartments in Houston. This is one of the most sought after markets in the country. I’m not getting any letters. I’m on the tax roll. If anybody was taking action to do mailers I’d be getting those letters. I don’t get them. So, to those of you that are thinking or may be thinking by the time I finish this particular subsection, well, everybody’s doing direct mail. I don’t wanna, you know, it’s gonna be a flood of letters. I’m telling you right now, nobody’s doing it. And the reason is it takes a little bit of effort to get it going. There is an expense associated with it, in doing direct mail. And nobody’s doing it, okay?

So, let me explain how to do it so I can show you and you can make a decision if you’re gonna do it or not, but my recommendation is: do it. Alright, first of all, here’s the recipe. Here’s the cookbook on direct mail. This is not difficult. What’s you’re gonna need is names and addresses of apartment owners. I’m gonna tell you how to get that. You’re gonna need the letters. You’re gonna send out templates. I’m gonna give you those. And you’ll need a seller script. So, when the seller calls, just like we had a broker script, I’m gonna give you a script for talking to sellers. Those are the tools.

Here’s the four steps. You get a list of apartment owners and their addresses. Number 2, you do a mail merge. Mail merge is a way of… It’s actually Microsoft Word or Microsoft Excel, you can take… If you put all the names and addresses in Excel, and you have a generic letter, a mail merge will take all those names and addresses and create a letter unique to each person and put their name and address on it so they’re customized letters. Mail merge. Number 3, you’re gonna mail the letters. Number 4, when they call, use the script. That’s the recipe. That’s the cookbook.

So, with that, how do we get the owner names? Well, there’s different ways to do it. The brute force way and the way that I did it when I got started. You go to your county appraisal district, which is free and you know, you can look all the names. You know, it’s public record. You can look up names in that county who owns particular property. Now, different counties have different levels of sophistication with their online access to data. Some of them will allow you to do database dumps. Some of them are gonna be, you know, property by property queries. And unfortunately when I was getting started, mine was on a property by property query. So, I was literally doing it property by property. But that is a source.

Now, there's other sources that are fee-based that I'm gonna point you to. These other sources, they access the same database as the county, but they have a smart front end to it where you can do queries. You can do sorts. You can get very specific. You know, show me all… For Houston, Texas, show me all the owners of properties in Houston, Texas that live in Honolulu, Hawaii. That's how I got started, but I did it one at a time, manually. But now, I then found out that there was a tool like propertyinfo.com which will do it all for me in about 5 minutes and dump it all to an excel spreadsheet and I'm in business. Another one is lead-trac. L-E-A-D hyphen T-R-A-C. A lot of students use that. Lead-trac tends to be more national than propertyinfo.com. Another one is infousa.com, which I have not used. Most people are using lead-track or they're using property info if it's in their area. Propertyinfo.com doesn't have the same reach. Propertyinfo.com is actually owned by Stewart Title and they're good, they're usually good if you want them to add one of your counties, they will add the county to their search database. But, their each fee-based, usually on a monthly subscription or by county and you just check with them on the fee. But keep in mind, all you need to do is dump your database one time to an Excel spreadsheet and then you can drop the fee, because, you know, yes the owners may change over 12 months. But, you know, if you've got 5,000 names just send to the 5,000. You know, you don't need to update it that frequently. Alright, that's getting the owners.

Now, we are going to send out a letter. Now, the first thing we actually do to get someone to read the letter is opening the envelope. And in direct mail… Why don't we… Well, first let me back up. What I'm gonna be teaching you is direct mail is not limited to apartments. This is… I'm gonna teach you the tools and techniques of direct mail that have been proven by direct marketers who've mailed millions and millions and millions and millions of letters. This is what works, so just do what I say to do. Don't ask me about deviations, because I don't know. This is what I do and it generates a 3 to 5% response on my mail campaign. So, if I sent out 100 letters I could expect to get 3 to 5% responses back. Direct mail… In direct mail, 1% is considered a good response. We're getting 3, you know, 3 to 5 times what normal direct mail pulls. It's because of what I'm gonna teach you right now.

Alright, the envelope. You're gonna use a number 10 envelope. White envelope. No window envelopes. I don't want a window box in there. You're going to hand write the address in blue ink. Now, I say you. You may do it for the first small batch, but after that I want you to get someone to help you. A kid, you know, spouse, family member, high school kid. I don't want you spending your time stuffing envelopes. I want you spending your time on the phone with brokers and sellers. But you're gonna handwrite in blue ink the address. The return address label in the upper left hand corner, that can be typed out, but It's only gonna include your street address and your city and zip, not you name. How come we don't put your name on there? They don't know us and they may toss this thing in the trash. What we're designing this letter to do is we've gotta make sure this letter goes from the mailbox and gets opened and doesn't go from the mailbox to the trash can, because many people like me, and I'm sure you, sort our mail over the trash can. And so we have to use the envelope to grab their attention enough to make it beyond the trash can.

Next thing we're gonna do: we're gonna put a stamp, a real funky stamp, theme stamp. We're not gonna use the US flag first class stamp that's like business mail. Everything we're doing on this envelope, we wanna make this look like a personal envelope. We do not want it to give any hint that it's business correspondence, because if it's business correspondence, it'll get tossed. It'll get thrown away. It'll never even get opened. It'll make it to the trash can. That's why we do the hand-writing. Blue ink. We use blue ink because it stands out. Tests have shown that blue is better than black, alright? That's the envelope.

Now, second is the letter. And I'm gonna go ahead and show you the letter, actually in a moment. First we're gonna do the mail merge. You' re gonna take the database of names you put into Excel from, that you downloaded and you're gonna merge it with the letter template, so that it actually has the actual… Each letter, let's say you're saying out 100 letters. Each of those 100 letters will have the unique name and address of the owner that we're mailing these letters to. So we're gonna put together the, you know, generate that letter. The letter… Oh by the way, if you're worried about, how do I do mail merge, I'm going to give you a bonus. I'm gonna give you my direct mail marketing system. This is… I can tell you right now, doing a mail merge is kind of a… I'll tell you frankly. It's a pain in the rear. When I first did this, first started doing this, I did it myself and documented the entire process, literally down to the buttons you push and that's what I handed to a person to do my direct mails for me. Okay? So, I documented all that and I also created a little audio on it. I'm gonna be giving you that as a bonus. It's gonna be in the resource vault so you guys can… It'll step you through the process of doing doing mail merge. You've still gotta use Excel and Word, but I created a system around it so you can do it yourself or hand it to someone to do it for you.

Segment 7 – Section 3 (cont'd)

Alright, back to the letter. Let's take a look at the letter because this is what you're gonna be sending out. Now, if you notice… And this letter is in your home study system and it's in the marketing system, the digital version. One thing you notice about this letter, maybe you notice, it doesn't look like a standard letter like we were taught to write letters in second grade, because look at that big headline at the top. This headline is the ad to get the person to read the letter. So, it reads, "Are you dissatisfied with your Houston apartments?" Now, if you're not marketing in Houston, somewhere else, change the word "Houston". But I am interested in buying it. The right hand side I've got my name and street address. By the way, on the address, both for the letter and the envelope… Let me go back over here for a moment. That return address in the upper left hand corner needs to be a street address. Do not use P.O. boxes. Looks like a business correspondence. Now, I don't necessarily want you to use your home address, so what I'll turn into that is go down to UPS store, rent a box there and they will give you an address that doesn't say P.O. box. It'll say "123 Smith street #104". "104" is the box number. That's the way that, you know, to have the anonymity and but not look like a P.O. Box. Okay?

Alright, back to my letter. These fields on the left over here, those little brackets, those are the mail merge field. It's gonna insert the name, the address and the city and the state of the owner when you do mail merge. And it's gonna say,

> "Dear so and so, I'm interested in purchasing your apartments. Are you interested in selling? As a property owner I realize that there are a number of reason why someone may be interested in selling. Everyone has their own reason. And my question to you is, are you ready now to sell? If so I'm ready to buy. I can close quickly or delay the closing as long as you like, maybe to realize the tax benefits. Please contact me at your earliest convenience so we can discuss the sale of your property. Call me now at… [Give them a phone number] I look forward to hearing from you. Sincerely, [put your name]"

And you're gonna have someone hand-write your signature in blue ink again. Blue ink. Hand-write it. You can just give, you know, you can give a kid the authority to sign these letters for you. Perfectly legit. You'd be giving them authority. But it has to be hand-written name, blue ink. "P.S. for a quick assessment call me now at my phone number." That's it. That's it. Don't change anything. Well, change the phone number. Change your name and the phone number and go with this. Put them in the envelopes, send them out. You'll get a 3 to 5% response from that.

Now, there's another letter in your home study system. What you wanna do is repeat the letter every 90 days. Stay in front of your audience because things change. Things change. And you know, you don't know which version of the letter you may pull at any point. The other thing I want to tell you about the letter, and this is a very important point, write this down. The color of the letter has to be golden rod, golden rod. Go to Office Depot. It's a gold color and that's the name of it. You can buy a ream of paper that's golden rod. Why do we use golden rod? Because it just pulls better. Marketing results have shown it pulls better. Grey is supposed to be another good color. But I've never used grey, I've always used golden rod. Your envelope is white, the letter is golden rod, it stands out. When they open that letter it's gonna stand out. And I've actually had people call back and say "hey, I've got your yellow letter here on my property. I'm calling about that". That registers in their mind. It sticks in their head.

And also, if it's like my kitchen table where I have papers from letters and bills spread out that are all on white paper, that golden rod, that colored paper stands out so when I'm looking for it I can grab it. And if they, for example, file it in their folder about their property, in their mind they have registered this golden rod piece of paper having to do with someone contacting me one time wanting to buy the property. So we use golden rod.

Alright, so our letters go out and whoops. Why can't I get this right? Okay. Alright, so now, what do they do when they call? When I started out, this was the biggest fear. Oh my gosh, I sent these letters out, now what? Somebody might actually call me. Well, I'll tell you, they are gonna call. 3 to 5% are gonna call. So, we're gonna follow a script again. So, in your home study system is a seller script, which is… go around to it. Alright. Now, they're calling us. I'm gonna answer, "Hi, this is Lance Edwards". This seller's gonna say, "hi this is so and so, I received the letter saying you wanted to buy my property". Now, the objective here with the seller script is very similar to the broker script. Objective number 1: we wanna build rapport with them. Number 2, we're gonna qualify this is a motivated seller and we wanna qualify this is a deal. Remember up front, what I said is, we're looking at the intersection of two things: is the seller motivated and is this a deal? And this letter, this simple two page script is gonna figure that out over the phone.

Now, the way it's designed is we're gonna ask about the property first before we ask about the seller. We ask about the property because that's a neutral subject that will help us build rapport. Alright, so the first question we're gonna ask, "can you tell me how many units your property is?" Simplest question there is in the world. They're gonna say it's whatever it is. "It's 10". We're gonna answer again. We're gonna repeat the answer and affirm it. "10, great, how many vacancies do you have?" They're gonna answer "3". Now, so what do I know at this point? "What's the vacancy rate?" "30%". Well your next question, "what are the rents?" "$395 per month". Now, we talked about earlier in this call, someone asked what's the one bedroom rent for a class C property that's not all bills paid? It's $400 to $450. This rent is 395. What does that tell me? Well, number one it is definitely not all bills paid. Number two, it may be a class D. May be a class D. It's definitely a C minus. Also, what else do I know at this point? I know the number of units. I know the vacancy and I know the average rent. Which means for the number of units and the rent I can calculate the GSI. From the vacancy I can determine the actual revenue. And use the 40…. And now that I know it's not all bills paid for the rent and use 45% for the expenses, I can determine the NOI right now, without asking another question on this property, based on my first three questions. Back of the envelope.

Alright, I'm gonna ask some more questions that are kind of generic questions. Are they slat roof or pitched? This is just to get them talking. They're gonna answer whatever, flat roof or they're gonna say pitched. How long have you owned it? This is of interest. If they've owned it for a long time they might have a lot of equity in it or it might even be free and clear. My first deal it turned out was owned free and clear. I got 100% seller financing. But those are rare, rare hard to find, but if they've owned it for a long time with a lot of equity, they might be able… The won't carry back a mortgage, second mortgage. We'll talk about that next week. Okay, so they're gonna answer how long have they owned it. I guess 20 years. Now, I wanna ask where's the property located and what's the address, because, keep in mind, we sent out maybe 100 letters. When I was… Well, let's keep this simple. Say we sent out 100 letters, we have no idea when they call which person is calling, but the letter they received… Many times they believed we had to drive by their property, fell in love with it, ran home and wrote this personal letter and hand stamped it, hand addressed it and sent it just to them. That's… many times they believe that. So, we have to find out where the property is so we know what we're talking about. So, we ask for the address.

The next question, and this is a very interesting one, "what type of deferred maintenance does it have? What's the condition of the units? The roof? The foundation?" Now, you need to repeat the question exactly like this. I said, what type of deferred maintenance does it have? I did not ask, does it have deferred maintenance, right? It's an implied question. So, ask them what type. They always tell us when we ask this question. They'll say, "well, the vacant units need a make ready but it's not much. I'm getting an assessment of the condition of the property, because I want to kind of maybe find out if it needs rehab or not." I'm gonna repeat, okay, that's good. "Who manages the property?" Let me scroll the script. Now, they're gonna say somebody does or they're gonna say, I do.

So at this point, we've established rapport. We've asked very laser questions. Now we're gonna drill in and determine the seller's situation. What problem are we solving? And we're gonna ask, just like we did with the broker, "may I ask why you are selling?" Ask it just like that and then shut up and listen. It's a very legitimate question. Don't him-haw around the bush. "May I ask why you're selling?" It's a very legitimate question. And they're gonna give us a reason. This answer I'm gonna share with you I actually got from a lady. She said, well, my son used to manage the property but he's gone and now I'm stuck with it. I just wanna get rid of it. Okay, well I can understand that. Have you thought about how much you might want for it? Alright, let's get in to see what their expectations are on price, because remember this is unlike a broker. When I call a broker I've got a LoopNet listing in hand where they've, you know, put a price up. This is a… This is a person that doesn't have the property even listed. They just happened to respond to my letter. So, I'm asking, have you thought how much you might want for it? Well, I'm not really sure, maybe $250,000.

Alright, what do I know at this point? Well it's 10 units, she told me that up front. $250,000, that means $25,000 per door which is in the vicinity of the guideline we're looking for so this could be the kind of class C deal we're looking for. Next question we always ask, no matter what number they throw out. We always ask, "is the price flexible?" And usually you get the answer at this point because you've established yourself with rapport and credibility and the quality of your questions. And the answer you're gonna get, I always get, is "yeah, it's flexible, I just want out." Next question, "do you owe anything on the property?" Because we wanna, you know, see how much equity is in this property." No, it's all paid four years ago". Now if you actually, if you hear them say, "no it's all paid four years ago", you need to say cha-ching. Because that means they can do the financing for you.

Alright, now we're going to… We've qualified this is a deal we're interested in. We say, "I buy properties all over ____________, Houston, and my offers are based on the income of the property. Do you have any financial reports on the property?" Now, I wanna loom at the financials and I need to give him a reason why, by telling him my offers are based on the income. Now, if it's a seller… If it's a fairly good sized property and they have a management company they'll have monthly reports they could send you. If it's a seller who's managing it themselves, again, they may have been running it out of a shoebox. So you might get limited information. They might say, "well I have my tax return, what information do you need?" We may have to tell them, "I need the rent, the taxes, the insurance and repair bills. If you pay the bills for the tenants I need the utility bills. Do you have those?" They may say, "I can get it. I know the taxes are", you know, they may know some piece of information. And then you ask them to fax it to you.

Now, so at this point, again, there's only one deal to be looking at here and it's their deal. This is a go or no go decision we make on the phone right here. So, I'm making a go decision, by the fact it's $25,000 per door, that's pretty much my go decision. And she said, you know, she's flexible. Or he or she is flexible. I keep saying she because I took this off a conversation I had with a lady.

Alright, common objections here. There's three of them. You might get this sometimes, the seller will call you and they'll say, "are you just looking to give me a low ball offer? Are you just one of those low price offer people?" The response to that, and this always silence is this, "no, I'm looking for value plays where I can add value to a property." They understand that. They understand that. That silences them. Second objection, sometimes they may not… They may want too much for the property which means they're not really motivated and it's not really a deal. And they may just be fishing to see what somebody would be willing to offer on their property. And the response to that is, we're gonna exit gracefully, but we're gonna try to line them up as a buyer for other deals. Because if they own property now, they may be interested in owning other property when we go looking for buyers. So, our response is gonna be, "it sounds like you have a great property and you've already put all of the value into it. We'll give them credit. I come across deals all the time. If I come across one would you like me to call you about the deal? May I add you to my email list for deal alerts?" So, if we can't, you know… We've gone to the time and expense of sending a letter out, we got the person to call, if they're not gonna be a seller we wanna try to convert them into a buyer. We wanna make sure we monetize every lead and this is how we do it right here. And I have never had anyone… When you tell someone, I come across deals all the time would you like me to give you a call if I find one? I mean, nobody's gonna say no to that. So you get their email, get other information and put it on your buyers list.

Third objection, you may get this, "why do you need to see the financials? Can't you just drive by and make me an offer?" First of all let me say this, we never, never, never, never, never just drive by and look at properties. We are not in the business of driving and looking at properties. We make offers based upon the numbers. Do not spend one drop of gas wasting your time or money driving to look at properties. So, here's the response to that: "well, the ability to get financing on the property is tied solely to the financials as is my price. I qualify my deals based on the financials. Can you provide them?" So I'm telling him, to get financing, we need to see financials. The price is based on the financials. Can you provide those? Now, if no, I want you to drop them and move on to somebody else or you can try to convert them into a buyer. Do not go drive and look at properties. The reason, up in the script, we have them fax something to us, even if it's a seller that has receipts in a shoe box, I want them to fax something to me. Not because I think I'm gonna get, you know, these gems of information, but because I wanna see them take some action to get something to me because that's a measure of their motivation. If they're not willing to, you know, get access to a fax machine or to email me something to help sell their property, they're really not a motivated seller and they don't meet our criteria. Next. That's why we do that.

Okay, alright, questions on talking to sellers or getting access to sellers. Let's see what we've got on the big board here. We're almost done. You have a question, press star 6. Let's see. Some questions came in. Alright, okay Vinny had a question, *low-income housing tax credit properties, are they okay?* Yeah, low-income tax credit properties are properties that were built or redeveloped and they got some tax credits. Yeah, you can buy them. Of course, what you need to be asking about is, you know, are there tax credits remaining? Can they be traded? I'm really not an expert on tax credit deals, but there may be a tax credit associated with it that you could sell as well. But, yeah they're fine. They're fine.

Let's see. Question: *loan needs to be assumed. How do you handle these?* Well, you look at… You need to evaluate it and see if it's a good interest rate and if it would be a good deal. Many times being able to assume a loan is a great way to get into a property and then flip it to your buyer. The deal we're looking at right now, I was talking about, has an assumable loan and so we're gonna use that as the underlying financing. You have to pay usually a 1% transfer fee. The buyer may need to, you know, requalify for the loan, depending upon the size of it. But it can be a great way to get someone into a deal. And so you make an offer and you just make your offer saying you're going to assume the loan.

Okay, Shavon. Shavon's got a great analytical question here. *How soon can I expect a response from a direct mail campaign?* Well, Shavon, we did a study on this. We interviewed 37,263 owners, apartment owners across the United States in 48 counties. Did it between the hours of 3 o'clock and 4 o'clock pm on Fridays. We found the absolute optimum time to get a response from a direct mail that was sent from a post office in Texas in zip code 77055 is 3 days, 4 hours and 17 minutes. There's your answer. Usually it comes within a week but it's not… Sometimes they will… Depending on their level of motivation they may have put it in their folder. I've had calls after 6 months where situations change. They remember that golden rod. They go to the folder. They call me, "yeah, I got this yellow flyer from you, you know, a few months ago. Tell me about it, what you do".

Okay. So, Shavon liked my answer. Okay, cool. Let's see. Alright, anyone else have a question on sellers? Shavon's got another great analytical questions. What's the best way to set up our home office for calls, etcetera? Have a phone. Is that you Shavon?

Shavon: Yeah.

Lance: Listen, you're going wild with this stuff. You're little voice is throwing up all this stuff that really is just trying to keep you out of the game. I'll tell you that right now. You need to be aware of this because these are all, you know, reasonable questions, but they're not relevant. They're not relevant. What you need to do is call a broker, talk to them and get in the game. When it comes to sending… when you send a letter out you give them a phone number. It can be your cell phone. It can be, you know, an office. You're in business. That's all you need. All this other stuff, I can tell you , right now, is your little voice doing what it's designed to do is protect you from embarrassment, because there's a fear, there's a fear in there that we all have and it's throwing some stuff up that has nothing to do with making money. None of it has anything to do with making money. So just, you know, I'm not saying this to embarrass you and I hope that's not embarrassing but I'm telling…

Shavon: No, not at all.

Lance: I'm just… The reason I can say this is because I've done it. I've lived through it and I've seen student go through this and we need to… the sooner we catch ourselves doing it, the sooner we know this about ourselves so that we can counteract it. Does that make sense?

Shavon: Yes, yes. That's very good,

Lance: So that's… take it with some seriousness intended, please.

Vinny's our other analytical. Vinny's got a question. I understand that to hold you like 50 to 200 units. What's the smallest number of units we should be looking at wholesaling? Well, Vinny we did a survey. We actually did analysis of 4,632 apartment wholesalers across 36 states, 15 counties of those between the ages of 27 and 32. And we found absolutely the smallest number for wholesaling is 2. It doesn't matter. It doesn't matter. If you can make money at it, you do it. I did a triplex and I made $13,000 flipping a triplex. Okay? Go find a deal, Vinny.

Alright, Vinny, you on the line? Vinny come on the line. Press star 6. We need to work on your mindset real quick. I'm not gonna embarrass you. I promise.

Vinny: Yeah, I'm here Lance.

Lance: You're my other analytical.

Vinny: The reason I said that is I have a whole stack of LoopNet deals and I'm trying to figure out which ones to get rid of. You know, some are 4 units, some are more, so.

Lance: I mean, here's the thing about… When I talk about cap rate… This is a good question. When I talk about cap rate this applies to 5 units or more. That's considered commercial. 4 and less is residential. A fourplex, a triplex and a duplex is based upon cost just like a house is. So, it's gonna be more… you cannot apply the format I'm teaching you. So, if you wanna apply cap rate you need to do 5 and better. So, that's a great question.

Okay. Alright, home stretch. Last slide. Other sources of deal flow. And let me clear the line real quick. Just a moment. Okay. Other sources of deal flow are bird dogs and other and these are related. By bird dogs I mean somebody who finds you leads that's not a broker. For example, I bought a 10 unit property off of a flyer that a member of my real estate put on the flyer table on a Saturday evening. He was a residential real estate entrepreneur. He did houses. He had stumbled across a 10 unit. He didn't really manage apartment. But he just put together a flyer. He's an astute entrepreneur. He put together a flyer, put it on a table to see if anybody would bite. I saw it. It said 10 units, $180,000. What's that per door? $18,000 a door. I think it said 90% occupancy. Boom, I bit, picked up the phone, called him. He made an introduction with me to the seller and I bought the property and I paid him a finder's fee. Bird dogs.

So, other kind of, you know, kind of other… Another way of thinking of bird dogs is city inspectors or property inspectors or the laundromat service operators. Anybody who could be coming in contact with a deal. For example, a laundromat operator, the people that are servicing the laundromat at some of these properties, they can notice if things are changing or things seem to be, you know, not getting fixed or he's hearing complaints from the tenants when he goes over there. And they can be referring you deals for a fee. So, anyone who comes in contact with distressed apartments can be a source of deal flow for you. It's... I call them either other or bird dogs. Now, I would not spend a lot of effort on, you know, trying to advertise for bird dogs because most bird dogs are people who are frankly lazy and if you say, I'll pay for leads and you make it too broad a statement, you're gonna have people going to LoopNet, printing off LoopNet sheets, faxing them to you and saying how much do you give for this lead? How do I know this? Because I made the mistake of doing it when I got started. You know, send me your deals, I'll buy your lease. And I had more junk… I spent more money on paper for the fax machine than… Didn't get one deal out of it.

So, when you do find a good bird dog, you hold onto them because they're worth their weight in gold, but I want your antenna to be up. You know, if you happen to be speaking to someone and in the conversation they mention how they come in contact with apartments or they have some reason to give you some type of direct access to motivated sellers, then you could ask them, well, hey, next time you come across one of those, call me. If I buy it I'll pay you a referral fee. That's when I've had success with it. But don't go out trying to solicit bird dogs who have absolutely no commitment to anything and they're just gonna send you a bunch of junk and burden you down in analyzing their junk. And then calling wanting to know when they're gonna get paid. So, main point, I want your antenna to be up.

Alright, so, with that that concludes section 3 on finding deals. That concludes our tonight session. Are there any final questions or comments for this evening? I know we have an extended session tonight, but great questions and this is the heart of it, finding deals. Now, next week I'm gonna tell you how to make the offer and how to get things tied up. How to do things in a way where you can close them fast, because that's when you get paid. But, this was a key part right here. So any final questions or comments? You press star 6 or type one in. I don't see any coming in.

Okay, final point, bonuses. Look for these in the resource vault. Bonus one I've already mentioned, the direct mail marketing system. This is the mail merge system. It's gonna be in the resource vault to get you going in direct mail. Second bonus, I'm gonna provide you two videos of the interview I did with Dan Badinghouse in the apprentice session. These are private session interview [INAUDIBLE] asking questions. Dan was answering questions about his deal at different stages during the process. This is a video that's normally just for the apprentices and the bonus I'm gonna put it in the resource vault so you'll be able to watch that video. And this is very enlightening and fascinating because you're gonna hear, through the process, how he found the deal, his mindset routine he went to, how he found his buyer, etcetera. The whole step by step and the apprentices are basically an open microphone to ask him questions about the deal. So, be looking for that as your bonus. And we've already given you the homework assignment.

So with that, I wanna congratulate you for your hanging in there-ness. This was, you know, great input tonight guys. Your job now, this week, go speak to at least 2 brokers, Shavon and everyone. And with that that'll conclude tonight's session. Great job. There will be a brief survey as you exit so you can give me your critique, suggestions from tonight's session. I look at it and very much appreciate it. And I incorporate it into the program. And with that, have a great week. Enjoy your assignment, and any questions, send us emails to make sure we're supporting you out there. I look forward to talking to you on our next session. Good night everyone.