UGWA Session 3

Segment 1 - Review of Week 2

Lance: Well, good evening everyone. Hi. This is Lance Edwards. Welcome to tonight's Apartment Wholesaling Mastery virtual boot camp session number three. Pleasure being here with you on our third session of the virtual boot camp. And what I wanna do is kick us off just real quick, get us back to think… recalling what we covered in our last session, session number two, where we completed the process about qualifying and analyzing apartment deals. Recall we were talking about cap rate, market cap rate. I gave you the shortcuts, how to use the expense ratio to analyze a deal on the back of an envelope by knowing the expense ratios and using that to estimate our expenses. And really, if we know the rents and the number of units, the unit mix and the rents and the vacancy and an idea of the rehab, we can pretty much estimate the value and make an offer on a property and it'll be back of the envelope. But we're seeing this more and more with these bank REO deals where they don't have historical information, because they just took it back. And so it's gonna be more and more of a means of doing that.

We talked about the model when you have low occupancy properties. I was on the phone today with one of my partners, Bruce. He'll be on… I think he's on… I can see him on the webinar, now. Talking about the MAO formula. Recall the low occupancy formula. When a property is less than 60% occupied, we have to… that's the only time we use pro formas is when the occupancy is so low, we have the MAO formula. Well, what we're finding now, students call me, say, I did the MAO formula. Well, the bank is asking less than what I'm calculating my offer to be, and that often is the case in this market because these banks are dumping these properties. So just some phenomenal deals out there.

And then we got into section three on finding deals. We talked about how to do it with brokers using the broker script. We find the brokers through LoopNet. We take a listing out of LoopNet, pick up the script and make the call. We talked about direct mail campaign, doing the letters. We talked about how to craft the envelope so that it gets opened, how to prepare the letter. What color paper to use for the letter, golden rod. And how to just simply take the templates that you're given in your home study system and prepare those, do a mail merge with property owner databases and send those letters out. And then when the sellers call, use the seller script.

We talked about LoopNet as a source of listings. And I shared with you that it's really not a great source. I don't want anybody to bet the farm on LoopNet because you'll just get frustrated using LoopNet. LoopNet is less a source of deals as a source of brokers who have access to the deals. And then we talked about birddogs and other categories of, really, referral sources that can refer deals to us. It's really a matter of keeping our antenna up and hearing about opportunities to get access to deals.

Now, we also had a homework assignment, or a field assignment, I prefer to call it. I asked you to go read module four which is all about finding the deals, which is the material we covered last week. And then I asked you also to read modules 3a and 3b on funding deals. This is just to get you introduced to module three on funding deals, and that's really in anticipation of what we're gonna be talking about tonight, because one of the things…you might say, well, wait a minute, if I'm flipping the deal, I don't need to be worried about funding it. That's pretty much true, but we need to be thinking about how our buyer is going to fund it, because one of the things we talk about tonight is how to structure a deal so that it can be easily sold and easily closed so we can be easily paid, because we don't get paid until we get a closing.

Had you… asked you to practice analyzing three more deals on LoopNet using your deal analysis sheets, because I want you to get proficient in filling out those sheets. I want you to get comfortable with the numbers, used to the numbers so you can size up these deals quickly. And then I asked you for the big one, call and speak to at least two brokers. Put you in the field, handed you a script and said, go get 'em. So I'll be looking for your comments on that tonight. And also, wanted to make sure, on number five, you should have downloaded your quick start audio from real coach and be listening to how to develop your mindset routine. I call it the 20 minute daily routine to get your mindset in gear, to keep you focused, to see you through the challenges and make sure you can act despite fear, act despite feeling that you don't wanna act.

So, with that, let me open it up. Let me get some comments, questions from the field assignment. Tell me about your experiences. Tell me about who analyzed deals on LoopNet and who spoke to a broker in the last week? Press star six on your phone.

Vinny: Hey, Lance. This is Vinny in PA. I spoke to a couple brokers this week.

Lance: Let's hear about it. How did it go? Is this your first time speaking to a broker, Vinny?

Vinny: Actually, for commercial deals, it is. I've done a lot of residential deals but never commercial. You know, this is kind of new to me. But the script worked perfect. I mean, it was like they didn't… never questioned anything and they were very receptive. After I got off the phone with them, I thought to myself, I'm like, you know, it should be like this. These guys are out. They need to make these deals happen so they can make the money so they get… if you do it right, it seems like they'll work for you.

And I'll tell you, one guy, I told him exactly what I was looking for and he brought me a deal. I still have to analyze everything. He sent me about 80 pages of information and I just got that today. He actually brought me a deal where the owners wanted to do the financing. I'm not sure exactly how much the owner is looking for a down payment. And a second deal he told me… and that deal is 125 units. The second deal he told me when I told him what I was looking for, he said, look, I have a deal that's about to fall through. It's a 56 unit and the people are very motivated. So he's gonna send me that over, probably tomorrow. So, I'm amazed how this is going with the broker. That was just one broker I talked to. The other one wasn't quite as knowledgeable as this one, but the deals are out there. There's no doubt about it. And I have one right now, I've gotta look at how much it's gonna cost for rehab and I think the cost per door right now is about $8,000 or $9,000, but I've gotta factor the rehab into it, too.

Lance: Outstanding.

Vinny: So, the deals are out there. The brokers will work for you. And I was kind of excited after I talked to them. So much, this is easier than I thought.

Lance: Ah ha! Ah ha! That's right. And the keyword, easier than I thought. It's all in your head, right?

Vinny: That's right, you know.

Lance: Well, that's fantastic, Vinny. So, you're my new poster child, poster boy for talking to brokers and the before and the after. So, great job. That's outstanding.

Vinny: And I guess, what I'm gonna do is I'm gonna send you over those filled out sheet in the next couple days from these deals so you can take a look at them. But I was talking to… I forget who it was, before you got on the call and I said to them, I said, if the numbers look good, I guess we're just gonna make an offer and then go for it. You know?

Lance: Exactly.

Vinny: Do our due diligence a little bit more after to see if it really does work out. I mean, that's what you said, you tell me if anything happens before you make an offer, right?

Lance: You're spot on, man. You're spot on. You're spot on. And actually, next week, we'll be talking about how to make the offers, but feel free if you wanna make one… if you wanna send us an offer to review, we'd be happy to do that in between now and next week.

Vinny: Good because my wife, she was saying to me, well, what do you do now? And I'm like, well, Lance said fill out the sheet and make the offer.

Lance: That's right. That's right.

Vinny: Be looking for some of these sheets from me.

Lance: Send in your deal sheet. Just send in the one page deal sheet. You don't need to send anything else unless we ask for it. We just wanna see the one page deal analysis sheet.

Vinny: Yep, that's what I'm gonna be filling out on these deals and we'll take it from there.

Lance: Oh, man. Great job, Vinny. Outstanding. Way to go. Now, let me ask you a question.

Vinny: Yeah.

Lance: The second broker you spoke to who, I think you made a comment, he didn't seem to know as much or… was he less knowledgeable in the field or…?

Vinny: Well, you know, I was going over the rents and I said to him, I said, this seems like the rents are a little low for class C. And so I said, would this be a class D? And he actually came and said, no, it's a class B. And but the rents we're $300. And there were just some of these things this broker was saying were not in line, especially with the other brokers I talked to and reading over your course. And I could just tell that he was not as sharp in the commercial arena as some of the other brokers I spoke with.

Lance: Well, that's the… okay, you also made my point that I think I shared with you guys last week. Don't put them on a pedestal because, right now, you guys… you guys, right now, at this moment, know more than 90% of the brokers out there peddling apartment deals. So, you just helped make that case. Well, Vinny, that's a great job. Way to go. Outstanding. Outstanding effort. Now, we're gonna create a monster. I can see it already. So great job, Vinny. Alright. And also, thank you for sharing, Vinny. Thank you for stepping up.

Vinny: Oh, no problem.

Lance: Alright. Great job. Who else has questions, comments from the field assignment?

Dennis: This is Dennis from Dallas.

Lance: Hey Dennis in Dallas.

Dennis: Vinny and I were talking before you got on and we had very, very similar experiences. I was talking to a broker and he just opened up. Just said, I got… this guy is a 65 year old owner. He's in Virginia. He's had three separate management companies in a year and a half. He's sick to death of it. And the guy says, well, you're at $6.5 million dollars on this thing. That's $34,000 a door. That's way out of my line. He goes, no, no, no, it's all the way down to $5.7 million. He was just… couldn't wait to talk about the deal and how much less it is than actually what we were showing on LoopNet and he said, I'll get you all the paperwork.

Then we went in to start talking about value plays and he, well, that's all if do. He goes, you need to be on my list of people. As soon as I find something, I send it out. I said, yeah. That would be me. So, the second guy was just in a hurry and you could tell he was in his car and as soon as he stopped he goes, I've gotta. He was gonna call me back. And I immediately called another guy after that and didn't hear from him all day long. So, you're gonna get your ones that are involved and the other ones that are not quite so involved. But, yeah, they're eager. These were the first two listing right off a class C in Dallas that I figured hundreds of people are all over and just kind of wanted to hear the feedback. But it was pretty obvious that there's not a lot of people calling.

Lance: So, Dennis, is this the first time you've spoken to a commercial broker?

Dennis: Oh yes.

Lance: Great job, man. So let me ask you this, read one listing, you know, going into that call did you have a little anxiety or a little nervousness?

Dennis: Not really. I'm in sales, so I talk to people all the time.

Lance: Okay.

Dennis: I was just kind of wondering where he was gonna... if he took the conversation to an area I didn't know anything about, especially the financial part of it. I didn't want it to go there, quickly. It didn't matter. It was all about the… make an offer and let's see if we can get this thing done. He goes just, what are you thinking? What kind of offer do you wanna make? That's exactly where it went and in a hurry.

Lance: Good. Now, did you use a script?

Dennis: Oh yes, verbatim.

Lance: How did it work for you?

Dennis: It was fine. I mean, just kind of walked through [INAUDIBLE] like you're reading the [INAUDIBLE]. It's just, you know, start talking about it. It looks like a class C. I was familiar with the area, both of them. I said, I know exactly… I said, I'm unfamiliar with that street, but is this near [INAUDIBLE] Spring Valley? He goes, well, yeah. It's just a block away. I said, which direction and that kind of thing. So he knew I was on my way to look at it or so I told him.

Lance: Oh man. That's fantastic.

Dennis: Yes. Good rapport all the way.

Lance: Fantastic. Well, great job. Great, great job. You're on your way too. And thank you for sharing. Fantastic, fantastic. Alright, who else has a question or a comment from the assignment for this week?

Kevin: Hey, Lance. It's me, Kevin.

Lance: I'm sorry. Who is this?

Kevin: Kevin.

Lance: Hey Kevin. How are you?

Kevin: I'm in Los Angeles. Very good.

Lance: Good.

Kevin: Can you hear me?

Lance: Yeah. That's better now.

Kevin: Alright, got good news. I talked to a couple brokers. Actually, I talked to four of them and what I find is that even in these low cap rate areas, which they are in Southern California, these guys are coming up with things. You know, I kind of told them I need to get higher cap rates and they start to help me formulate ways of getting higher cap rates. And basically telling me a lot of information. The script works really well. So, Vinny and the gentleman that was just on the phone were very right about that. They don't ask questions. They don't doubt you. And you separate yourself from 90% of the people out there. When you write an offer, you separate yourself from the rest of the 5 percenters and then you become a 5 percenter. That puts you in the money, I think. So the script really works well.

Lance: Excellent, excellent, excellent. That's… Kevin, thank you for sharing that because that's what I just hear over and over and over and I wanna… and I share that not to brag on the script but to reinforce to anyone that's having a little bit of concern about speaking to brokers, use the tool. The tool has proven hundreds of time to work and here's yet another reinforcement.

Kevin: A lot of the trepidation that you would normally have, Lance. That's the key. Even for people… I've been a broker before, so I'm kind of familiar with things, but it's been a while. But this… you go in there armed and I think it just… your confidence goes through the roof and they can sense that you're somebody that knows what you're doing, even if you really don't at this point.

Lance: Was this you first use of the script? First calling with the script?

Kevin: No, I did it the week before last, also. But I'm familiar with talking with brokers, being in the real estate office and even in a commercial office in the past. But it's been a while. But, again, it's starting anew. And it's starting with fresh information that I think really utilizes… just gotta use it. I think it's just a matter of time. I mean, a very short time, as a matter of fact, before we have something under contract, especially Vinny out there, it sounds like.

Lance: That's right. That's right. Great job, Kevin. Great job. And also, thank you for sharing. Great job stepping up. Alright, who else? Who else has a question? Anybody who has a question? Anybody feeling stuck? Anybody that's feeling some uncertainty, because I wanna… we've had three stories here, three accounts of success stories talking to brokers. If someone had a different experience or someone's having a little bit of a challenge getting engaged, let's talk about that and get you opened up here. If that's your case press star six. If you're feeling a little trepidation still, have any questions. Heard someone. Did someone just join the line? Alright, well no one's feeling trepidation.

Anyone have any general questions or… any questions or comments or questions from the material we covered last session? Analyzing deals, finding deals, direct mail, birddogs.

Student: Lance.

Lance: Yes.

Student: I've just got one quick question about the operating expense ratio.

Lance: Yes, sir.

Student: For all bills paid properties… I'm not talking about Houston. I know Houston is plus five on top. For all bills paid properties is it 50% or 55%?

Lance: 55%.

Student: Okay, it is 55%. Because somewhere I wrote 50%. Somewhere else I wrote 55%. On your slide it say 55%. I just wanted to make sure.

Lance: Yeah, it's… the national average, if it's not all bills paid is 45%. If it's all bills paid, it's 45%. And let me make a clarification here. When I say… because this is part of the jargon with the industry. When I say all bills paid, now there's typically three utilities. It may… in the northeast you may have four, but here, down south, you have… you've got the water. That's a utility. You have the gas and you have the electricity. Now, and I guess up in northeast you would have oil. Here, routinely, what I'm used to, is gas is used to run, primarily the water… the boiler for water. Of course you have water going to the units and then you have electricity. So, it's normal practice that the landlord, the owner is paying for the water. The water is free. And the landlord pays for the gas. So, when it's advertised as all bills paid, that means he's throwing in the electricity, is the portion that's all bills paid. So, the reason I make this clarification, if you're… you know, sometimes, new students will say… I'll ask them is it's all bills paid. They say, well, it's partial all bills paid. They're paying… the landlord just pays the water and the gas. That's routine. So it really keys off who's paying the electricity as a distinction between not all bills paid and all bills paid.

And just as an aside, it has nothing to do with all bills paid, but, you know, the water is paid by the landlord, typically. I did this, I think about a year and a half ago. To help boost leasing, I had a big ad printed out. Hang it on the side of the building, one of the apartment buildings. Free water. Just to see if we can increase our traffic by being generous with our water. So, alright, any other questions from last week? Did I hear somebody join us?

Dennis: Yeah, Lance. I had a question.

Lance: Yes, sir.

Dennis: And this is about what he was talking about… the guy I was talking to, one of the brokers said that one of the ways that he thought you could increase the value on the thing was to use 15 electric sub meters to bill the tenants for electricity.

Lance: Yes.

Dennis: I didn't even wanna ask a questions because I wasn't sure, if they're already there, why aren't they paying for their own electricity?

Lance: Alright, great question. And who is this? Who is this speaking right now?

Dennis: This is Dennis.

Lance: Hey Dennis. Okay. This is a great… let me make this point. We're on all bills paid. Okay, now you'll hear this fairly frequently on an all bills paid property. And class C, it very commonly is an all bills paid property. It also means it has a single meter. There's just one meter. One electric meter that's for the whole property. So, sometimes you'll hear a broker say, well, here's a way you could create a value play. Go put in individual meters per apartment and make the tenants go get their own electricity with the power company. And that way, it takes the burden of the all bills paid off the landlord, because here's… there's a plus and a minus to all bills paid. The plus is, it's easier to lease an all bills paid property, because it's like one stop shopping. You just write one check to the landlord and you don't have to go qualify. You don't have to put on a credit check, like you do with the power company, or a separate deposit. You just start paying the landlord, so it's easy to lease.

The downside of an all bills paid property where electricity is free is guess what? They're gonna run the AC. They'll run every appliance. They'll run everything in that apartment wide open, even while they're not there. And you can be… you've got a real exposure there on your cost, in your expenses. So, coming back to this… what you heard from the broker, Dennis, is, sometimes they'll say, well go put in individual meters and then you can remove that liability. Well, what he means by that is, have someone, literally, coming in and put a meter with a spinning wheel, just like you have on the side of your house, and they'll meter and bill every tenant. Well, every time I've looked at that analysis, it's cost prohibitive. I mean, it's a few thousand dollars per unit to do that. And you can never justify getting the money back. But… hold on, hold on.

But there is a device. There's an alternative and I have not done it, but I'm aware of it because I saw it being proposed on a property that we were looking at to buy. There are meters you can buy, they're only like $500 dollars per unit, which measure… the property stays single metered. The landlord is still paying the light company, but you can measure the usage by each apartment, each tenant. And there's these third party companies that will measure that usage and you can even… you can either bill back the tenants for their usage, as you would if it was not all bills paid. Just bill them for their usage. Or, my thought for the best, even better approach, and again, I haven't done this. It's just a strategy, an idea I have in mind, is leave the property as all bills paid. Advertise it as all bills paid so you get the traffic, but give them an allowance of how much electricity they can use per month. And if they exceed their allowance, they get billed for the excess. So if the allowance is, okay, you get $100 of electricity to use each month. Well, if they use $130 worth, they're gonna get a bill for $30 dollars. And by the way, we raised the rents. We've built that cost into the rents. And then, give a $100 allowance and they only use $80, we're coming out ahead $20. So, that's… if I was gonna convert a property, that's the way I would do it. Now, Dennis, ask your question.

Dennis: Okay.

Lance: I'm sorry. Do you have a question? Do you still have a question, Dennis?

Dennis: I was just saying, if they're already… if they're still using… if he has existing electric sub meters for all the tenants, I was just surprised. Why wouldn't they be using them?

Lance: Oh, existing ones.

Dennis: Yeah.

Lance: Okay. That's a good question.

Dennis: Seems like I'd be ready made to make that into an electricity play for that.

Lance: Yes, yeah. I can't answer that question. That's a good question. Why… that's a great… why aren't you using it? Excellent question.

Dennis: Yeah.

Lance: Okay, yeah. I would ask them that question. That's a good one.

Dennis: Okay.

Lance: Alright, got a comment from Vinny. Vinny says he likes the free water banner. Yeah, feel free to use that idea, guys. Free water. This month, free water when you sign up.

So, alright, any other… one last question before we get rolling tonight on anything we covered, anything discussed tonight? Alright, with that, I think we're good to go. I'm gonna clear our line real quick. Just one moment. Okay, I've got the line muted, but you can unmute by pressing star six. Alright, so, just to make sure we have a clean line. Okay, any other questions?

Okay, so tonight, session number three as part of the curriculum is how to create deals and attract buyers. Right? So, remember, we know how to recognize the deal. We know how to find a deal. You're out now, did the field assignment, talking to brokers, seeing that, hey, indeed, mere mortals can do this. There are… you heard it tonight, there's deals out there. The systems we talked about work. The ways of sizing them up, analyzing them work. And so now, we think it's a deal. Let's talk about how to create a deal and how to go find the buyer. Even better, how do you attract the buyer for that deal?

So, here's the agenda for tonight. We did our field assignment, our homework review. And we're gonna go into section four and five tonight. Section four, I call structuring your deal. It's how we're gonna set up… when we make an offer, how we're gonna set up the financing for this deal. Not for us, but for our buyer. So, that's structuring the deal. And number five, how to find the buyers. We'll have Q and A throughout the session, at the break points, as you guys are familiar with. We'll have the field assignment at the end. If I'm at 11 o'clock Eastern, still talking, we'll break, give you the field assignment so you can go. That's fine. You go take care of what you have to do.

Now, I've got a special announcement at the end, after we cover all of our normal business if you're able to hang around for that. Alright, back to our wholesaling process. What we're talking about tonight, where we are on the road map, is about finding the dollars, finding the buyer and qualifying them. Big part is qualifying them. We'll be talking about that. So this is where we are on the road map.

Segment 2 - Section 4

Lance: So section four, structuring your deal. And the reference here is gonna be module three in your home study system on funding deals, because this is where… section… module three in that home study system is all about, basically, how to do deals, nothing down. And we're gonna use that knowhow to do the best to structure a nothing down deal, because let me tell you why. Why would we like to structure a nothing down deal if we're not buying it? Well, if it's a nothing down deal and it doesn't require any cash to get into the deal, you think there might be a lot more buyers who have no cash than buyers who have lots of cash? So, that's what we're driving for here, to make these deals very easy to attract, very easy to sell. And increase the universe of buyers.

So, to make this point, there's basically two schools of thought when it comes to flipping deals and structuring your purchase offer. And school number one is this: when you're putting together a deal under contract, you wanna negotiate the lowest price possible so you get a maximum assignment fee. And the way you get the lowest price possible, you have to make, you know, all cash offers or heavy cash offers, right? There's always a balance between an all cash price versus… an all cash offer versus an offer that has, quote, terms. Terms meaning some flexible financing. That's school number one. School number two says this: the way you should go in wholesaling, you should negotiate the best terms for the easiest close and the easiest assignment. So you're willing to pay a higher price. We're willing to pay a higher price for the property if we get flexible financing terms, which will mean less cash needed to close the deal.

And so here's my recommendation. When you're starting out and until you have your buyers list established, I recommend school two, which says, you become a creative financier. You negotiate the best terms on these deals you're putting under contract so it's very easy for you to attract the biggest universe of buyers and it's easier for them to close. So, you know, if you had a deal that required no cash, if the seller was carrying back a second mortgage that covered all the cash requirements, then the only cash your buyer needs is the cash to pay us, which is good, which is good. So this is... I'm recommending, when you're starting off, school number two. And let me make the point here. Which of these do you think would be easier? Let's say we have a deal. We've put a deal under contract. It's $1 million but it requires $1 million cash. All they will accept is cash, no financing. It's gotta be cold, hard cash. Versus a deal… let's say it's the same deal. It's under contract for $1.1 million. It takes $275,000 cash and a new mortgage for $825,000. Between those two, which one do you think would be easier to flip? Which one would have a bigger universe of buyers? Same property, just different financing on the two. Or a third option. How about this one? It's the same property, still $1.1 million, but it only takes $165,000 cash. The seller's gonna carry back $110,000 and we're gonna assume that $825,000 mortgage. Well, the third one is gonna attract the largest group of buyers.

We're working on a deal right now with actually one of our apprentices, Robert Birdy, has a deal that we're looking at. And it's 186 units, I wanna say, where it has an assumable mortgage. And the only cash it needs is about $200,000 cash. The seller will take $200,000, then you can assume the balance on 186 units. So it's like a 6% down payment, basically. And so, we are all over that deal because that's the kind of deal… there is some cash required, but the percent of cash is so low, that means there's gonna be a big universe of buyers able to fund that deal and anxious to fund that deal. And so that's the question. Which would pay a higher assignment fee? Well, the higher assignment fee would probably come from the upper left hand corner, the $1 million. But you're gonna have a harder time finding that type of buyer and you may actually not be able to find one in time to get it closed. So that's the tradeoff.

So here's our strategy to attract buyers like a magnet. We think like a buyer. Okay? Think like a buyer. Think like a nothing down buyer. And we're gonna use creative strategies, creative purchase strategies to place these properties under contract. We're gonna leverage assumable mortgages, where they exist. We're gonna leverage and propose seller financed mortgages. And we're gonna use a strategy known as the Own Nothing, Control Everything, where you don't even have to even own the property, because the whole objective here is to make it as easy as possible for our buyer to gain control of the property with the least amount of cash as possible. And then we… as we… when we create this creative contract, then we are selling a creative contract. The product we are selling is not the property. The product we are selling is the contract. And so, the more attractive the contract is, the easier it is to attract buyers, and the bigger universe of buyers we're gonna be able to find. So, again, I put it there in the box in the bottom. The easier it is for your buyer to buy, the easier it is for you to sell your contract for a premium and quickly. Because again, all the… the amount of cash you take out of what's required to close a deal is cash that's left over to pay you your assignment fee.

So, in talking about creative financing, now, all of module three in the home study system talks about all the ways. But I want to talk about it here to get you in the mindset of how to think like a creative financier. This is gonna be of use to you for your wholesaling deals. It's also of use to you for the deals that you wanna hold onto yourself and you're looking to ways to finance them using none of your own cash. Well, we use a four part formula that's called the private… really, the raising private money formula. Those four parts are predisposed, control, low risk and high return. And each of these four parts, I'm now gonna step into and explain to them, because the whole power of this program… I say this program… this formula, is applying all four parts simultaneously.

Now, let me just give you the 30,000 foot view of it right now. Predisposed means when we go out to find ways to fund our deals and now we're thinking like a buyer, who… we wanna target predisposed sources of funding. Predisposed means, who are the individuals, who are the institutions, who are the groups that have somehow, figuratively raised their arm, raised their hand and they're waving at us saying, hey, I'm looking for deals to invest in. I've got cash. I've got credit. I'm looking for deals. Because those are the people we wanna target when it comes to financing our deal. Okay? So there's three things we always have to… there's three things we always gotta sell or there's three things your buyer's gonna have to sell in order to raise money. Number one, he's gotta sell this person, first, on the merits of investing in real estate as a class, as an asset class. Number two, he's gotta convince his funding source on the merits of investing in this real estate project. And number three, he has to convince his funding source of the merits of investing in him. Can he pull it off? Well, if we just target groups or individuals or entities that are already predisposed to investing in real estate, we've cut our sales effort by one-third. They don't need to be sold on the merits of real estate. They're out looking for it. They're already there. So we're only gonna be looking at predisposed sources and tonight I'll give you the predisposed sources.

The next two parts of the formula, control and low risk, have to do with the psychology of the private lender. We have to structure these transactions so that our private lender, the private investor, feels they have control of the transaction in the event we don't perform. They need to feel like, if for some reason, the buyer doesn't perform or defaults, they can take control of the property and get their money back. They also wanna feel as if it's a low risk transaction. They wanna… everybody wants low risk. I want low risk. Preservation of capital is so critical. Matter of fact, the way of thinking about the control and low risk portions is, investors wanna hear about return of capital before we talk about return on capital. And then the fifth thing a private investor wants is high return, high return. But that's the last thing we talk about is the high return. The first thing we're gonna talk about when we're presenting our deals is the control and low risk. We're gotta get… we've gotta seize their mind share and get them comfortable that this is a high control, low risk investment. And then, we're gonna tell them about the high return we have. And when I say high return, I mean high return relative to the low risk that I just convinced them of. Alright? You… you know, one of your jobs is to become a student of this four part formula, because when you become a student of this four part formula, you can raise whatever kind of resources you need for any type of venture. It could be money. It could be time. It could be talent. Whatever you need, this is the model, as an entrepreneur, that you use to go marshal the resources to get your deals done.

So, here's the scenario. We have a deal, we have a deal that we're looking at. We're gonna make an offer. Vinny, this could be your deal. We're gonna make an offer. We need to think in terms of how we're gonna fund this deal and how do I make it as creative as possible before I make my offer, so that what I end up with is a contract with very creative financing. And so we have to think in terms of the buyer. So, what I'm gonna step through now is the predisposed sources of funding for your deal and there's six categories, six categories I wanna step you through. Think of these as categories and each of these categories has all type of subtopics with them, which regards to all the funding sources for doing creative financing on your deals. So the six categories are the banks. The seller is a predisposed source of funding. Private investors is a broad category of predisposed sources. The real estate broker is a source of predisposed… a predisposed source for funding. You… not you, but the buyer, you, your buyer is a source of predisposed… predisposed source for funding. And you are as well. And the you part, I'll explain the distinction is just a moment.

Here's the part that we're gonna be talking about, going on for the rest of the training. You are the conductor. Alright? From the time you find the deal until the time it… you receive your check at closing, you are orchestrating the entire process, all the players, including your buyer. You're gonna orchestrate the seller. You're gonna orchestrate the buyer. You're gonna orchestrate the title company. You're gonna orchestrate the entire process. You may say, well, the broker does that. No, he doesn't. No, he doesn't. Nobody has more vested in this than… other than the seller, than you do. But the sellers don't know what I'm about to teach you, so you are conducting the entire process to make sure it closes. Alright, so predisposed sources.

First category is banks. Now, for purposes here, when I say banks, we're talking about large, national banks, local community banks. FHA a source of funding and you're gonna get access to banks through commercial mortgage brokers. So, if you have deal you're looking at and you wanted to know, let's say it's a big rehab project. You're gonna think about, okay, I'm getting ready to make an offer on this thing… wonder how easy it is to get financing on this project. Well, you might wanna talk to a commercial mortgage broker and explain you project to them and they will tell you the type of institutions that will do the first lien financing on it. One of them will tell you, hey, FHAs love rehab loans. You ought to be thinking about that, because you have to be thinking… before you even put it under... make the offer, you have to think, if I was buying this, how would I get the financing done on it? So, for banks, here's the traditional bank finance model. Again, the banks are going to… you know, they're a big part of the equation. They finance anywhere from 70% to 80% of the financing. Now, prior to the recession, typically you get 20% down, even less. It's really shifted to 25% and 30% down payments when you're going out for a new loan, which means you're gonna get somewhere around 70% to 75% loan to value financing. A bank loan, today is gonna ne… it says 6% interest. It's more like 5 ¾% interest. 30 year amortization, which means the mortgage is being... the mortgage payment is being calculated so the loan can be paid off in 30 years, just like a house. But here's the distinction: there's gonna be some type of five year balloon or five year rate adjustment on that commercial mortgage. They're not gonna let you take 30 years to pay it off. They're gonna want it to either adjust after 3, 5 or 7 years. Or they're gonna have a balloon, which means the whole thing has to be refinanced and paid off at that time period.

The other thing about talking about bank loans is that we have recourse and nonrecourse loans, in terms of banks. A recourse loan is kind of like the… it's the type for loan we have on our house. If you own your home or if you've ever owned your own home, you may recall that when you signed that two inch stack of papers at closing, one of those papers says, you are the personal guarantor for that loan, which means, in the event of default, not only can the bank take the property back, but they can come after you for any deficiency. That's a recourse loan, has recourse. It means you are… there's a personal guarantor. That personal guarantor is responsible for that loan no matter what. Non-recourse loans are loans with… there's no personal guarantor. The property is the sole collateral for the note. So in the event of default, all the bank can do is take the property back. There's no one to go after. Now, given a choice, which one do you think would be better to have? Obviously, non-recourse. Here's what's interesting: nonrecourse is available only for loans of $2 million and above. That's loan amount, $2 million and above. The advantage of a nonrecourse loan from a flipping standpoint is, obviously, a nonrecourse loan is more attractive to a buyer, because it's lower risk. There's no guarantor. So, if you're looking at a deal and you're looking at… it has an assumable loan and it's over $2 million dollars. One of the things you wanna find out, well, is that a recourse or nonrecourse loan because if it's nonrecourse, it makes it an even more attractive selling feature when it comes to finding your buyer.

Segment 3 - Section 4 (cont'd)

Lance: Alright, let's talk about the next… the second predisposed source. Second category of predisposed sources is the seller. There is no one more predisposed to seeing the deal get done than the seller, which means they can help contribute to the deal. Well, the first way they can help contribute to the deal is if they already have an assumable mortgage in place, because if the loan is assumable, it's a lot easier to assume, many times, than to put new financing in place. Now, on your deal sheets, your one page deal sheet, at the top, right below where you list the property address and the owner, there's a place where you can ask about the existing mortgage. And one of the questions is, is the loan assumable? And too many students submit those deal sheets with that blank. They haven't asked the question. Always ask. Always ask, is the loan assumable? First of all, it's a very fair question. No one's gonna be shocked by it. They expect it. And it could be another attractive feature that you wanna build upon. You need to know that if you're gonna try to craft a creative deal. Not every property… matter of fact, a minority of properties purchased are done with 30% down, new 70% mortgage. That's a minority of the cases in apartments. Most deals are done through creative financing. And when you go to propose a creative offer to a seller, they're already gonna understand it. They're professional entrepreneurs. They're not… this is not some homeowner who doesn't even know what negative amortization means. This is an entrepreneur who… he probably bought the property. He or she probably bought the property with some kind of seller carry back or some type of creative financing.

Now, the advantage of an assumable mortgage, besides it being assumable, sometimes it can have very good terms. It can have low interest rate, in the low fives. But the questions we also wanna ask, remember I said, all commercial notes, all commercial mortgages are gonna have some type of either five year balloon or five year adjustment in the interest rate. So, you always wanna ask, when is the note due? Here's why it's important, if you're putting a deal on a contract right now and they say, yeah, yes, is it assumable? Yes, it is assumable. Great. But then you ask, when is the note due? 60 days from now. Well, that's not gonna be any use to us unless we can negotiate an extension with the bank. Matter of fact, maybe they're having to sell it because the note's coming due and they can't refinance it, they can't pay it. Whatever the problem is.

Now, I need to make you aware of something called conduit loans that you're gonna come across. Conduit loans are loans that have really great interest rates, low fives. Less than 5 ½%. They have these low interest rates, but here's the… in exchange for having very low interest rates, there are some conditions that go with conduit loans. The loan has to be assumed. It cannot be refinanced, cannot be refinanced. Well, except with a very heavy pre-payment penalty. And the pre-payment penalty will be so ridiculously onerous that nobody would pay it, like hundreds of thousands of dollars on a $1.5 million note.

So, they can be good or they can be bad. If they are very low interest rate, maybe there's… you need to also understand how much time is left on that note. If there's only two years left on it, then that can be very good to sell to someone. If there's three years at 5%, that could be good to sell to someone. On the other hand, if it's 8 years left on that note and you have… and it's… and you have to refinance it, well, at 5%, that's still probably okay. That's very attractive right now, because I don't think rates are going any lower. And if rates start going up that conduit will look even more attractive. So you just need to understand if there's a conduit loan in place. The way you will know is if there seems to be lower than market interest rates on it, like low fives or 5%, there's a good probability it's a conduit loan. You just ask, is it a conduit loan? And I will warn you, some brokers will say, what's that? And what it means is… here's another way of saying it. Well, what's the pre-payment penalty on that loan? And if it's anything other than a point or two, like 10%, that's a conduit. And again, nothing is good or bad but we just need to know what it is so we can structure our deal.

Alright, still on the seller as a predisposed source. Seller financing, seller financing. This is where we're gonna have the seller carry back some of the financing. Instead of giving them cash, we're gonna ask them to carry back some of the purchase. We're gonna make monthly payments to them or our buyer will make monthly payments to them for like 5 years. And here's the thing, in a recessionary economy like we're in right now, everybody is flexible. Everybody is motivated. You guys are seeing the deals that are popping up out there. So, the rule is, you always, always, always, always… how often? Always propose the seller carry back at least 10% of the purchase, always, because they generally will accept at least 10% carry back on a second mortgage.

The question comes up, how much do I offer them on the interest rate? Well, here's a general rule, offer two times prime rate, which, I think prime rate's around 3 1/3%, so you can offer 7%. I'm seeing 6% and 7% second mortgages being accepted right now, which is just phenomenal. If you told me two years ago you could get a 6% or 7% second mortgage, people would have stampeded. But that's very, very routine right now. And… but they will want a five year balloon. The best kind… one of the best deals would be, alright, I can give you 7%... better, I'll give you 6% interest. I'll make interest only payments and I'll pay off your balance in five years on the portion the seller is carrying back. But even better than that is, okay, I'll pay you 6% or I'll pay you 7%. I'll pay it all off in five years, but all the interest is gonna accrue until I pay you off in five years. I will make no payments for the next five years, but I'll pay back the principal and all the accrued interest at that time. Now, is it gonna be you doing it? No, it's gonna be your buyer doing it, but that makes it a very attractive deal for your buyer, helps their cash flow by you removed… first of all, they don't need the cash for the potion that's being seller financed. They don't put up any cash and they're not even gonna make interest payments.

Another way of doing seller financing with a seller is what's called a deferred down payment, which is really another way of doing seller financing. I had a deal one time where… a small deal. The seller said, I'm not gonna carry back any financing. No seller financing. Okay, I'm not proposing seller financing. I'm proposing I'll give you 20% down but I'll pay it to you in 12 months. Oh, okay, yeah. We'll do that. It's seller financing, it's just a different label put on it. So I just put it up there because I had an experience one time where the choice of language I used seemed to make a difference with this seller, although it seemed to me to be the same thing.

Now, give you an example on seller financing. Here's my first deal. When I called and spoke to the lady, the seller, property was owned free and clear. By the way, whenever you hear free and clear, you automatically should go, take your arm, pull it down to your side and go cha-ching, because that means there's gonna be very creative financing. My very first deal out of the gate. I was fortunate. I came across a deal that was 100% free and clear, which is unusual to find these. Here's what I did. I submitted my offer to her and I faxed her the offer. This is my first deal. Knees are shaking and I proposed… actually, my purchase offer was like 85% of the retail price. So I was giving… offering… making a discounted offer. I asked her to carry back 100% of the financing. I'd pay her for 6%, interest only, 30 year term, no balloon payment. I could pay her for 30 years and never change the 6%, if I wanted to. I sent that over across the fax, knees shaking, sent the offer to her. Called her the next day. She was out of state. Called her the next day. I said, Mrs. Jones… that's not her name, but for purposes here. Mrs. Jones did you receive my offer? Yes, I did. Well, do you have any questions? Yes, just one question. Yes, ma'am, what is that? How soon can you close? And that… that's literally, literally how the conversation played out. And so there's a secret. There's a secret to getting seller financing. I'm gonna share it with you guys right now. You have to promise, swear a blood oath, you're not gonna pass this on to anyone. Here's the secret to getting seller financing. Ask. You ask. And in this economy, in this environment, like I say, expect to get at least 10% carry back. Because, the sellers believe… and this is true… that there's been a tightening of the capital. But many seller believe there's no capital. And if they listed to their brokers, the broker will tell them, nobody's doing apartment deals. There's no financing being done. So they get into a panic and they get all fearful, and so the idea that someone's gonna actually buy their property, if they have to carry back some seller financing, no problem. That's the mindset of many, many distressed seller right now, today. So we're gonna always, always, always ask for seller financing.

Let me give you another example. This is a student of mine. He had a property under contract. 42 unit, bank REO, distressed. He wasn't gonna flip it. He actually wanted to buy this one for himself. He put it under contract for $210,000. That's $5,000 per door. Now, it needed rehab. It was a fixer upper, but he's got it under contract for $5,000 a door. He got the bank to agree to carry back 95% of the financing. He only had to put 5% down. It was a 6%, interest only loan and no balloon with the bank. This is the same back who had the REO. They were so motivated to get rid of it, they carry back the financing on it at $5,000 a door. And he can pay them 6% for the next 30 years. There's no balloon. I think he got the idea when I… because I share the example of how I did my first deal. He just took it verbatim and he couldn't get 100%, but he got 95% financing with a bank and no balloon. I mean, that's unprecedented. Now, I can guarantee what was going on, they were under intense heat to get these things off their books. Now, how did John, how did John get this seller financing? What secret did he use? He asked. He made an offer. Okay, that's the environment out there. Alright. Moving on beyond seller financing which you are always, always, always, always… how often? Always going to propose seller financing for a portion of the purchase.

Now, here's another technique of leveraging the seller as a funding source. It's called a sophisticated lease option, otherwise known as a master lease option. I call it Own Nothing, Control Everything strategy. Let's say we've got a scenario where the property is upside down, where the seller owes more than the property is worth. For example, we run our analysis and we've determined the cap rate using…. We've determined the NOI using actuals. We have applied a market cap rate to it. And the value, at best, is $850,000, $850. But the seller owes $1 million. So, they can't sell it, because to sell it, they would have to come to the closing table with $150,000. They don't have it. Not interested in doing that if they did. They can't… and they need to sell it. They can't find any brokers who will list it for them, because the broker looks at it and, you know, says, it's upside down. I can't help you. It doesn't fit the broker's limited model of how to move property. And so the strategy here is the Own Nothing, Control Everything strategy. This is a strategy that you can propose to sellers, very creative, that you can then flip these contracts to your buyer. That's why I'm sharing this with you. You've gotta look… you've gotta literally put your money goggles on. You've gotta look at all the possible ways to finance the deal. And what's the most creative way to do it so I can make it easy for my buyers to buy?

So, here it is, Own Nothing, Control Everything. Let me give you a scenario and tell you how you're gonna set it up. The situation is apartments. It's low occupancy. It needs a moderate rehab. The owner hasn't put any money into it in a while. It needs a rent increase. They haven't raised the rents. It's an out of state owner, really just hasn't been paying attention to it. And as a result, as a result, the rents have come down. The occupancy has come down and it's really struggling. It's really struggling and it needs some… it's got some deferred maintenance. Needs to have some money put back into it to fix it up so you can get the occupancy up and the rents back up. Because, when the rents start going down… when the property starts going down, the better tenants are gonna leave. So now, to attract tenants, keep it full, you've gotta lower your rent. When you lower your rent, you get a lower quality of tenant. You get a lower quality of tenant, you get more payment problems. You get more issues. And so you lose the next level of tenants and you get into a death spiral. And it really takes very strong management and capital to undo the death spiral, because, otherwise, it will come a point to where you can't make the debt service anymore. And then the bank is gonna take it back... so that's where this seller is heading. He's already upside down.

So, I'm a buyer. I come across this deal. I've done a direct mail campaign, which is the way you're gonna get access to these deals. And I found, basically, this pre-foreclosure situation. And I approached the buyer and I say, listen, I've got a proposal for you. I wanna improve your property using my money. I wanna improve your property using my money. And 99% of the time, a seller's gonna say, how you gonna do that? I'm very interested in that. Improve my property using your money? Here's how it works. First of all, I'm gonna take over operation of the property. I'm gonna sign… execute with you a five year, triple net lease agreement. A master lease which says, I'm gonna lease the property from you and I'm gonna be subletting it to the tenants. I'll bring in a new property manager. I'll direct that property manager. I'll collect all the rents. I'll pay all the bills. I'll pay all the expenses and I'll pay the mortgage. That'll be me lease payment is I'll pay the mortgage for you. You no longer have to write any more checks. We'll stop the bleeding right now, because I wanna take over. It's gonna be... triple net means I pay all the expenses, taxes, insurance, repairs, everything. It's as if I own it. I don't, but it's as if I own it.

But there a part two to this, you tell the seller. And that is, you're gonna give me an option, a five year option to buy this property for $1 million. Now, you and I both know it's not worth $1 million. You owe $1 million on it, but it's not worth that. And I'm gonna, in exchange for stopping the bleeding, you're gonna give me an option to basically buy out your mortgage at some point over the next five years. And what I'm gonna do is I'm gonna improve this property so that it's worth more than $1 million. I'm gonna raise the NOI by putting some money into it, putting some new management. I'm gonna raise the NOI so that the property's value will go up. And I think this property would be worth $1.3 million within 18 months. And at that point, my option, my option to buy your property for $1 million when it's worth $1.3 million means my option's worth $300,000. So that's how I'm gonna create value for myself and that'll allow me to either buy the property then or refinance the property or even sell my option. If I have an option worth $300,000 in equity, maybe I can flip it for $200,000 cash or $150,000 cash. But that's how we're gonna structure this deal. Mister Seller, your bleeding is gonna stop immediately and I'm just gonna take this headache off your hands. And this is really the only option you have because nobody can buy this property because they can't get financing on it because you're upside down. This is the only option you've got and I'm willing to take the risk and I'll put up the capital. Now, is it gonna be our capital? No. A private… we would bring in a private investor or we'd bring in a buyer, bring in a buyer who we're gonna lay out this plan to them. We're gonna show them the lease option agreement we've signed with our seller and we're gonna sell our lease option to the buyer. And all the buyer needs to get into this deal is $50,000 plus our assignment fee. The buyer can get control of a $1 million property for just 50 grand plus our assignment fee. So that's yet another way to craft a very creative structure that we could flip and sell. We could sell our lease… we could sell our five year lease and our option to another buyer and let them just take over.

Now, as a bonus, let me just intercede right now. As a bonus, what I'm gonna be putting on your resource vault is an offer letter for how to do an Own Nothing, Control Everything offer. That's not in your home study system, so I want you to look for that and we'll be posting it on the resource vault. That's gonna be a letter of intent for Own Nothing, Control Everything. That's how you get the property tied up in this type of strategy. And next week… I mentioned LOI, means letter of intent. Next week, in module four, I'll go through LOIs more specifically but I wanted you to know to look for this bonus, a specific LOI for Own Nothing, Control Everything.

Okay, with that, let's take some questions. Let's take some questions. You can press star six or type me one. I see some have come in. Okay. Oh, Vinny sent a comment in. He said, I ran across one conduit loan that had a $600,000 prepayment penalty. Yeah, it's just… that's pretty much the sure sign you've got a conduit. It's just Draconian prepayment penalties. It's just nonsense, just nonsense. Somebody just came on the line. Who's that?

Shavon: This is Shavon.

Lance: Hey, Shavon.

Shavon: Hi. How are you doing, Lance?

Lance: I'm great. How are you?

Shavon: That's good. I'm doing well, thanks. One of the questions I had was, in that example where you were saying that you could do the repositioning and sort of structure it so when you sell it, it will be attractive to the seller. I guess one of the questions that I had is, at any stage in this point, would the seller say, well, I'm not going to do this deal with you? Maybe you need to put some money into it, put some skin in the game, so to speak, to even have this happen.

Lance: Okay, let me understand… make sure I understand your question. So you're negotiating. You're making an offer.

Shavon: Right.

Lance: And let's say you proposed… made an offer where the seller's gonna carry back all the portion above the current mortgage.

Shavon: Right.

Lance: So, your question is, is the seller going to ask you to put some skin in the game at that point?

Shavon: Uh-huh.

Lance: Well, they might. They very well might. Yeah, they might say, well, wait a minute. I wanna see... I do wanna see some cash in the deal. So, okay. Now, it's not gonna be your cash, it's gonna be your buyer's cash. The whole objective here, in this negotiation, you wanna minimize the amount of cash that seller is willing to accept from any buyer.

Shavon: Okay.

Lance: But, no, I mean, you're asking, are you gonna put in some money during this process? No. Not at all. You're preparing an offer. You're gonna be making an offer that says, for example, I'll give you $1 million for your property. The way we're gonna finance it is I' m gonna assume your $700,000 mortgage. You're gonna carry back $150,000 in a second mortgage and then I'll put $150,000 cash down.

Shavon: But you're saying it won't be my cash. It will be the buyer's that I will qualify and know has cash.

Lance: Yeah, yeah, it'll be the buyer. Yeah. All you're writing is you're just writing a contract.

Shavon: Okay.

Lance: You're just writing a contract and no one pays any cash until closing. But you're just creating the contract that will dictate how your buyer is going to finance the deal which is gonna close down the road.

Shavon: Okay.

Lance: Does that answer?

Shavon: Yes. That's much clearer to me now.

Lance: Okay, okay. But the whole objective is to minimize the amount of cash the seller is willing to accept to close the deal. That's the whole objective, because the less cash that's needed by your buyer, there's a bigger universe of buyers as you reduce the amount of cash they need to come up with to close the deal. A lot of people have great credit but no cash. Well, if you had a deal that needed no cash but great credit, there's a lot of those people. So that's the whole objective here. Did that answer your question?

Shavon: Yes.

Lance: Okay, great. Very good. Thank you for the question.

Shavon: No problem.

Lance: Alright. We had a question that came in from Chuck. How do you find these upside down properties that would be master lease option candidates? Well, there's… let's see. I'm trying to think. Is there a way you could target them? I guess if you knew… let me give you two answers. The first answer is, we find them through our normal channels we talked about last week, how to find deals. They just… you come across them. Is there… but I think you'd have a better shot at it using direct mail because, again, this is the kind of property that, if it's upside down, there's not gonna be a broker listing yet because no broker is gonna accept the listing because they don't know how to sell it. It's upside down. So you have to catch these deals through other means and primarily direct mail. That's one answer.

The second answer… that's a good question. If we wanted to target, specifically, these type of deals and just build a business around this type of offers. I suppose if you get access within a market of who did refinancings, who refinanced properties two or three years ago or who bought property two or three years ago because these are gonna be the ones that are mostly in trouble because the reason the whole county and the whole world is in the problem we're in right now is because when they were buying properties two or three years ago, money was basically being thrown at them. And the same thing going on with the subprime. Banks were loaning way too much money on these properties, either to purchase or to refinance. So, if I was gonna… I'm thinking this out loud, Chuck, a response to your question. If I was gonna target where to find those type of deals, I would go find the properties who were purchased or refinanced probably three years ago, three to four years ago. Take that window and then start sorting through that and then do a mail campaign. Do a mail campaign into those properties. And if I was gonna do a mail campaign, you could use… certainly use the template I gave you, but another way to approach it would be, hey, I wanna partner with you on improving your properties. And that will get a lot of response. That'll get a lot of response. So Chuck, does that answer your question? You can either press star six or just send me a message here. He says, yes. Okay. Thanks for the question, Chuck.

Anyone else have a question? Okay. So now… oh. So now we've got a… I had a question that came from Kevin. Lance, is it possible to get a list of the other participants on the call? I think this would be helpful to keep spirits up and exchange ideas. We probably can do that. Let me ask you this, anybody who does not want your email released, send me a message. Otherwise, we'll see about releasing the emails. I've hesitated to do this in the past, not because anybody here is gonna do it, but I've seen situations where people get spammed by other participant when I start releasing emails. So, if you have any objection to having your email put out for release to the group, just send me a message and we don't do that. Okay, so, thank you for the suggestion, Kevin. Thank you.

Now, so now, that was section four on funding these deals.

Segment 4 - Section 5

Lance: Let's talk about section five. Now, I've got a deal put together. I've got it structured. I've got a contract. How do I find the buyers? How do I find the buyers? And really, to put it more specifically, how do I find qualified buyers who can close so I get paid, because that's the point. How do I find real, real buyers? And the reference here is still in module three in your home study system on funding deals. Because a buyer is simply a predisposed source of funding for our deal. Right? They're buyer/investors. So the same places you look for investors are the same places you look for buyers, for the most part.

Let's talk about the whole process here. First, let me get my screen to work. Here… first of all, you're gonna put on your money goggles, your figurative money goggle, which allows you to look at the world through dollar signs. And when it comes to finding buyers, you always ask this question, who is predisposed to wanna buy this deal? Who is predisposed to wanna buy this deal? Who would consider this deal the absolutely perfect deal for them? Who… you know, who, when they would first hear about this deal would say, eureka. We discovered it. Here it is. This is perfect for us. That's the question we have to ask because we need to understand who… what that predisposed buyer looks like, feels like, not feels like, but where they hang out, what they do, so we can access them to put our deal in front of them. And I need to say, what we are looking for is the intersection of two things. How many things? Two things. Number one, we need an interested buyer, but number two, they have to be able to close, which means they have funding capacity. You're gonna come across lots of interested buyers who don't have the financial reserves to close the deal. I mean, there's a lot of people like us out there, finding deals, looking to raise private investors to get the deal closed. When you are flipping a deal… I'm gonna get a little schizophrenic on you here. You are gonna be absolutely ruthless about qualifying your buyers to make sure they can close. Everything I teach you about how to buy a deal is in opposition, direct opposition, to everything I'm teaching you right now about how to sell a deal, how to qualify a buyer. Okay? Let me declare that up front so you don't think I've lost my mind and I don't confuse you. Right?

When we're buying a deal, there's one set of things we do that are to our advantage. When we're selling a deal, there's a whole other set of things we're gonna do, but they're also to our advantage. First of all, what do we not want? I've got a deal. I'm looking for a buyer. What do we not want? We don't want the tire kickers. We don't want the birddogs. We don't want the nothing down buyers. No wannabes, no newbies. Let them go practice on somebody else's deal. Let me back up. What we want, what we want is somebody with cash and we're gonna be getting proof of funds from these buyers. Okay? I'll get that in a moment. But when it comes to qualifying our buyers, it is essentially gonna be, show me the money. Show me the money. So, let me share that with you right now so you can make a distinction about what we want versus what we do not want.

Now, here is a secret to finding qualified buyers, especially when we're starting out. The secret is this, massive action, massive action. And by massive action, what I means is how do we get our deal in front of as many people as possible? How do we get our deals in front of our ideal buyer? Again, I'm asking this question, who is predisposed to wanna buy this deal and how do I get access to them? This is marketing 101. How do I get access to my ideal client, my ideal buyer? By massive action. We're gonna do a lot of simple things to get our deal in front of as many people as possible. We're trying to get as much bait in the water, get as much lines in the water, so we can get… you know, hook that one fish. Too many… at this point, they maybe do one little thing. Maybe they put a flyer out at a real estate club. You know, apartment for sale. That's great, but that's like, you know, not enough, not enough. We're gonna do lots, especially when we're starting off. Now, once you get a couple of… you get a few buyers on your buyers list, then you're gonna get into a pattern, get into a routine, that you go back to know that they're looking for. Or you can just, on a phone call, get them hooked up. Dan Badinghouse is in that position right now. I mean, he's already got one buyer. We're already looking at the second deal to flip to him on a phone call. But it's gonna start with massive action.

So, here it is, a step by step cookbook system for finding qualified buyers. And the keyword here is qualified buyers, qualified buyers. Here's the tools we're gonna use: the internet, a voice box, mail box, a voice mail box, and a non-disclosure, non-compete agreement which I'm gonna give you. So, we have a deal, how are we gonna find a buyer? Number one, we advertise for the buyers. We're advertising our deal. We're gonna advertise our deal. We're gonna put it out there in a lot of places. The buyers are gonna start contacting us. We're gonna have them sign a non-disclosure agreement, which means we will not give them any information on the property, any details, until they agree not to circumvent or try to go around us, cut us out of the deal. After they sign the non-disclosure agreement, then we're gonna present the deal to them. If they're interested, we're gonna, then, qualify them and the simplest way to qualify them is show me the money. Give me proof of funds.

Then we're gonna negotiate their offer. We're gonna come to an agreement, how much they're gonna pay us for our contract. And then, once we have… and then we're gonna, you know, we're gonna have an agreement with them, which I'll be giving you. And then it's back to the… we're gonna orchestrate through closing. We are the conductor. I've got my… I've already got a contract in place. I've now found a buyer. I've got an agreement with my buyer. They're gonna buy my contract for me. The job does not end there. Too many wholesalers think, okay, great, I'm done. I'll just sit back and wait for this buyer to close and collect my check. No, the job has begun. We have too, many cases, drag the buyer across the finish line. Okay? We want to… it's like… I guess it's like… ladies maybe can relate to this. It's like bringing that groom to the altar. Sometimes that groom has gotta be dragged. Sometimes it takes a shotgun. Anyway, we're gonna get that groom to the altar so we can consummate this thing, but our role is as the conductor. We're gonna orchestrate this entire process.

So, let's look at advertising, how to advertise for predisposed buyers. And we're gonna talk about offline methods and online methods. Online meaning internet, offline meaning anything except, anything but internet. Here's some of the first ones. Running an ad in the newspaper, your local paper or the large city papers. I can tell you, when I started off, first deal I ever flipped, here in Houston, I ran an ad in the LA Times. At the time, there were a lot of California buyers buying property here in Texas so I was fairly new. I heard this at my real estate club. Somebody made a comment. Hey, the California guys really want Texas property. So I asked myself a question, well, how do I get access to California buyers looking for a Houston property? Well, where do California buyers hang out? Well, the Sunday edition of the LA Times, the classified ads. So I ran an ad there, sold the property that way. I also ran it in the local paper, here, and actually had a bunch of buyers call here, but none of them were as qualified as the ones from California, in this case.

Another thing you can do, create flyers. Put flyers out at your real estate clubs. Put flyers out anywhere where your buyers are gonna congregate, like at the real estate auctions. Hand out flyers at real estate auctions, on your deal. Hand out flyers at commercial real estate clubs. Hand out flyers a flyers at apartment association meetings. Where are you buyers gonna congregate?

Direct mail. If you can define a category of your buyers so you can get access to addresses, you can send a direct mail. I did this one time with a little triplex I was flipping. I asked myself the question, who's predisposed to wanna buy this triplex in this nice neighborhood? Well, I kinda figured, well, I guess people in this neighborhood that are…they might be interested in owning some property in this nice neighborhood. So I sent a… I put together a little letter and did a direct mail to people in that neighborhood, two streets either side of this property, and found my buyer that way, found a buyer that way. Very targeted direct mail campaign.

Real estate clubs, obviously. Advertise it there. IRA networking events. The IRA networking events is where companies like Entrust, the IRA administrators. They hold Entrust, E-N-T-R-U-S-T. They hold networking event where they invite entrepreneurs and investors to come together. And they usually allow deal a minute where they can present deals. Present your deals at an IRA networking event. Commercial real estate groups. When I say real estate clubs, most RIAs, real estate investing associations, are very residential focused. But there are separate clubs just for real estate, commercial real estate. Just for commercial real estate. Apartment associations. I mentioned that. Clearly, put out flyers at apartment associations. Network at apartment associations. Obviously, there's people there looking to buy apartments because thy own apartments.

Real estate auctions, another one. There's, you know, quite a few real estate auctions going on right now across the country, with a lot of buyers there buying real estate. Obviously, they're predisposed. Well, you can go down there and hand out flyers on your deal and/or you can get friends and family members in other cities and other locations that have access to real estate auctions and get them some copies and let them go hand out flyers at their real estate auctions as well, in other cities, other states. You might even wanna go so far as to hire someone to go hand out flyers at real estate auctions in places where you think your buyers are gonna be congregating.

Commercial brokers. Obviously if you've got a deal to sell, contact commercial brokers. They've got buyers looking for deals. List it. Mortgage brokers, same way. They have people that wanna buy deals. They have clients. Advertise it with them. 1031 exchange agent. This is a great one. If someone… you know, first of all, a 1031 exchange is a… there's a provision in section 1031 of the IRS code which says that if you sell a piece of real estate and you buy another piece of real estate within 6 months, you don't pay any capital gains tax. But you have to follow the rules of 1031 exchange. You have to work through what's called a 1031 exchange agent, or more specifically, a 1031 exchange intermediary. Well, advertise your deal with 1031 exchange intermediaries, because they may very well have clients who need to get into a property fast and they've gotta move the cash quickly so they can avoid the capital gains.

Money intermediaries. These are money brokers. They have clients looking to buy deals. Many times it can be hedge funds. Hedge funds looking to buy these deals or invest in these deals. Property management companies. They have clients… obviously, they have clients who own property. Well, they could refer you to someone and earn a fee for referring you to a buyer for your deal and even, perhaps, pick up the management contract.

Here's the thing, I've just given you whatever I gave right there. I guess there's about 15, offline. These are offline techniques. But what you wanna get plugged into is the spider web, the network of connections. Any time you speak to someone, you're gonna always ask for a referral. And you're gonna ask this, who do you know who would be interested in buying an apartment like this? And that's the way you're gonna lead your conversation. If you're gonna approach, let's say, someone at a real estate club, now maybe you think they're a prospective buyer, but I would approach them and ask them. Show them the deal. Who do you know who would be interested in buying an apartment like this? Well, they may answer, I would. Or they may answer, well, you know, John, over there likes to buy apartments. You might wanna check with him. Work the network. Work the network so we get plugged in quickly. So referrals, always, always, always, always be asking for referrals. So there's our list for getting access to buyers offline. Most of those cost nothing. The direct mail may have some expense to it. The flyers, you're gonna go to Kinkos and get some flyers made. Ads, newspaper ads will cost some money. But many of these cost absolutely nothing in getting the word out on your deal. And keep in mind, we are selling a contract. There are no limitations imposed by the Security and Exchange Commission. We're not raising money. We're selling a contract. You can do anything to advertise it, something for sale.

Now, the bonus, also, look for this is in your resource vault. I'm gonna give you this marketing flyer we use at real estate auctions, here locally in Harris County, Texas. I have someone from my staff goes down looking to collect names, addresses, emails of buyers for our buyers list. And this is actually a general one. It's not for a deal. It's just to collect names. And so I'll be posting this flyer on the resource vault. So be looking for that as well. This is what you can… you know, take it and modify it. If you wanna leave my name and number on there that's fine. Have them contact us. But put your contact information on there. You wanna use it to collect names and emails so you can put them on your buyers list, and phone numbers.

Now, let's talk about online access to predisposed buyers. First of all, Craigslist. Craigslist. Advertise your apartment for sale. Just put, subject, apartment for sale. And I would add to it, motivated seller. I'm gonna do some copy here in a moment. And then you'll get inquiries that ways, from all over the country, all over the country. Now, also, put it on the listing services. If the deal… if your deal is not already on LoopNet, put it on LoopNet. But here's the other site I shared with you last week on finding deals. You can list your deals on these other sources. Commercialwebsource.com, commercialiq.com, realprospex.com, buyincomeproperty.com. Those are listing services. Put your deal on there. And if you just go to

Google and Google apartments for sale, you'll probably find other sources. They're very dynamic, you know, frontier with regards to the internet, so you can always find a place to sell it by just Googling, Google apartments for sale and see what kind of places come up where you can post your project. Throw it up there. Get it out. Some of these are fee based; some of them are free, but none of them are very expensive.

The other thing on LoopNet, they have something called the big board. Now, you do have to pay for LoopNet to list a property. I think it's $59 a month and but then when you do that, you get access to something called the big board, where you basically can run ads. And you can run… or you can just… it's like a message board. You can post properties. You can do that also on the big board. LoopNet used to have an email service. I think they still do this, where, when you create your listing, you can send an email out to everyone who has indicated they're interested in properties of your type notifying them of your deal. And you can type a message, a custom message to them. There's two ways. One group… one message will go to the brokers who've indicated interest in that type of deal you've posted. And then another email you can craft will go to investors, buyers who have indicated interest in the type of deal… program you've done.

Now, what you can do is post your deal. Say you wanna send an email to all the brokers. It can be hundreds of brokers who've expressed interest in your type of deal. You say, hey, I've got this new deal just listed. Please check it out. But you could also add there, I have other deals just like this. If you're interested in being part of my buyers list, either call this phone number or you can give them a web link where they can go enter their name and email address. So, you can build a buyers list doing it that way. And I think you can still do that on LoopNet. Okay, so you're gonna leverage their database. Now, you won't get access to the email addresses. That doesn't matter. They will send the email out for you too. And they'll tell you how many hundreds of people it's going to. But use the email to not only advertise your deal, but to solicit their name and email address, so you have it for your buyers list. And then do the same thing for their buyers database.

Alright. Social networks. A lot of talk going on about social media and social networks and it absolutely has a place. The number one social network, right now, for commercial deals is LinkedIn.com, LinkedIn.com. For finding buyers, here's the way it works. First of all, if you're not familiar with LinkedIn, it's free. It's like a professional… what did Bruce call this thing over the weekend? Professional Facebook. If you're familiar with Facebook, it's basically where you create a website for yourself. I mean, they do all the work. You just enter some information and it looks like a page for you. You can see mine, Lance Edwards on LinkedIn. I've got one. And it gives your bio. But what it allows you to do, once you're a member of LinkedIn, and it's free, they have things called groups and things called answers. They have, for example, apartment groups. If you go in and search the groups for apartment or multifamily or apartment buyers, you can join these groups and you can post a question. Who do you… just like I showed you a moment ago. Who do you know who would be interested in buying an apartment like this? Blah, blah, blah. Post your projects on LinkedIn and you'll be amazed at the response you're gonna get. People are gonna say either, I would or here's someone I can refer you to, because it's basically a big networking session. That's doing it with groups.

The second way within LinkedIn is usually answers. There's a section there called answers. People can ask questions to get… and anybody can answer. You can pose the same question, who do you know who'd be interested in buying an apartment like this? And then get answers. Now, as I recall the answers are congregate… are broker down, categorized by subject as well, like real estate, free. Very powerful. So, up front, when I talked about massive action, I'm talking about covering as many of these bases as possible. You can get your friends to help you. You can get your kids to help you. With this internet stuff, maybe it's better to get the kids to help. But, you know, basically getting your deal posted. Get it out there. That's the whole point. That's what I mean by massive action. How many ways can I dangle my deal in front of my predisposed buyer?

Now, another source. There's one on here. I'm less familiar with this one. This is… one of my students shared this with me. Wwww.crepig.ming.com. That's commercial real estate… I don't know what the pig stands for, but crepig.ming.com and that is like a forum site where you can post your deal as well. Google groups and Yahoo groups. If you go to Yahoo groups and just type in... search real estate, you'll find groups there. That can be places to post our deal. Alright, that's the online. All of that is free with the exception of LoopNet.

Now, so we've got our deal out there. We're advertising it offline and online. You are going to generate, you are going to generate responses. Now, I don't want you to make the same mistake… I never make mistakes. I just have very expensive learnings. I don't want you to have the same expensive learning I had. Remember, this first deal I was flipping. I ran an ad in the LA Times. I had seven callers. Out of those seven, two of them made offers. I ran the same ad in the Houston Chronicle. I had 135 callers. Nobody made an offer. And even worse is I had 135 callers and I made… nope, didn't make a mistake. I had the learning experience that I put my cell phone as the contact number in that classified ad in Houston Chronicle. So I had 135 callers to my cell phone, over the weekend, all asking, basically, the same questions ad me having to answer the same questions, essentially, 135 times. So, after that learning experience, I developed a system that I wanna share with you right now. How to automate your response system. So you're gonna qualify… you're gonna filter out the tire kickers, the wannabes, the nothing down buyers. You're gonna filter them out so you're not even gonna talk to them. Your system is gonna filter them out so that by the time anyone gets to you, they are a qualified buyer that is genuinely interested. Now, I'm ready to talk.

Here's the way it works. You're gonna set up a voice box. You're gonna record a two minute message about your deal. All the ads that you put out, everything we just talked about, offline and online, you're gonna direct all those ads to the phone number for the voice box. Not your phone, to the phone number for the voice box. So, when somebody calls that ad, they're gonna listen to the two minute message. It's gonna explain the property. The message, at the end of the message is gonna direct… tell them how to direct qualified buyers to contact you. But, at the very end, the way we're gonna qualify them is we're gonna tell them this. And I'm gonna give you the script here in a moment. Proof of funds required with all contracts. Proof of funds required with all contracts. Now, this is the part where I'm getting schizophrenic on you, right? Remember, we just talked, we just talked in the beginning of this session, tonight. You guys have been out calling brokers. Not one of them asked for proof of funds. Perfect. You did great. Great job. No discussion about proof of funds. You're a buyer. As a seller, all you care about is proof of funds because you don't wanna get a buyer and tie up your contract who can't close and leaves you hanging to dry and the deal falls through and you lose the deal, and you don't get paid. Okay? So we are going to manage the whole lead generation funnel through this qualifying step.

Alright. So, step one, setting up your voice box. First of all, you can do it for free. You can go to www.simplevoicebox.com, simplevoicebox.com and they will assign you a number with a voice box that you can record, you know, by dialing in over the phone, by doing it through the computer. You can go to the website, simplevoicebox.com. And if you…. They will assign you a phone number, by the way. You don't have any control over the phone number they're gonna assign. It could be a phone number… your deal could be in Memphis, Tennessee, but the phone number they assigned you could be out of North Dakota. Matter of fact, it most likely will be out of some place like North Dakota, remote location. So it'll have a North Dakota area code. That may or may not be a problem. But if you'd rather have a local phone number, a local area code in your ad, for example. Let's say you're running it in the local newspaper. You'd rather have the local phone number, then you can get a local phone number, you go to www.myonevoice.com. It's gonna cost maybe $10 a month and you can pick the area code that you want the number from. They'll assign you the number. It'll give you, in this example, a Memphis, Tennessee area code. You put that phone number in your ad, but inside myonevoice.com you can redirect that phone number to your voice box phone number. So when somebody calls that Memphis, Tennessee phone number you're showing them, it redirect to the phone number where the voice box is and they hear the voice box. It look like… and it looks like you're a local seller. Okay?

So, I mean, here's basically the process. Let's say you're running an ad, the one I'm showing you on your screen. Let's say this is a classified ad. I'm gonna show you the copy to use in just a moment. Here's the example. Motivated seller. 10 unit apartment for sale at discounted price. 24 hour message and the phone number. And it's gonna go to this voice box and it's really the virtual voice box, you know, internet-based, virtual voice box. The important part is say 24 hour message. Some people don't like to talk… the idea of talking to someone. They just really wanna see if they're interested in it, then they'll talk to someone. Plus, if it says 24 hour message, they know they can call at any time. Middle of the night. Whatever. They're cruising the net, can't sleep, come across a deal and it just happens to be the perfect deal, they can call and get a report on it. This is how you automate the system. After my first experience, I went to this like really, really fast. I had to go figure it out. This is how you do it.

Segment 5 - Section 5 (cont'd)

Lance: Now, here are the templates for your ads. These are the ads you can run. And let me give you an example and I want… see how these guys… see how these ads strike you. First one. And this is for a stable property. We'll make a distinction between… I have one property that's stable. How would I advertise that? Versus a property that like, really needs work. How would I advertise that? So, if I have a stable property, priced to sell, 50 unit apartments, stable income, management in place, 24 hour message, phone number. Or positive cash flow. 50 unit apartments, takeover, priced to move fast, 24 hour message, phone number. Notice a lot of the value plays are built in, a lot of the keywords I've build in. This is to... the whole purpose is just to get them to call. The whole purpose is to get them to listen to the two minute message. Now, these, I'm running very small ads. They cost less. So I've gotta be very high… jam packed with keywords that's gonna get someone to call.

Now, let's say I have a property that needs a lot of work. Fixer upper, 50 unit apartments, priced to move fast, 24 hour message. Here's another one. Value play opportunity. Now, someone who's in the business understands what that means, right? A real buyer. 50 unit apartments, discounted price, 24 hour message. So the keywords that you wanna use… I'll put them on your screen, here. Priced to move, discount, cash flow, rehab, motivated seller, fixer upper, value play, opportunity. Now, I love… what I do a lot of is motivated seller. Where'd I show that one up? That was… one of them had motivated seller up here, didn't it? On the previous example, I had motivated seller.

Now, am I a motivated seller? You bet. I wanna get this thing sold. I'm motivated to sell it. [INAUDIBLE] a conversation will decide how motivated I am in the price, but that's…. we want the piranhas coming out. We want the buyers coming out, so we need to put a lot of chum in the water. And the chum we use are these high keyword rich phrases.

Okay, so now they're calling. They're calling the number. They going to the voice box. Here in the voice box message. First rule is… I'm gonna give you the script here in a moment, a sample script. Do not give away the address or in any way identify the property if it's already being listed. Okay? Because you don't want anybody to bypass you. You don't want… certainly don't want anybody to somehow figure out who the owner is and contact them. Hey, I heard your deal being listed on the… being listed for sale on the internet. Huh, what? You don't want that. Not that there's anything they can do about it. You've got it under contract, but you just don't want the aggravation. So, if you have 22 units in Memphis, Tennessee, you might even say 20 units in Memphis, Tennessee. Just enough to get someone's interest to call, because what we're gonna do is have them sign a non-disclosure agreement first. You wanna give them… in your voice box message, give them just enough information to generate a call. Make it keyword rich. Take those same keywords and we're gonna lace that throughout our two minute message. We want them frothing to call. This just sounds like a smoking deal. I've gotta get on the phone. I've got to learn more about this thing before it goes away. And if you've done your work and made it very… used the creative financing, that's what you can be promoting as well. Low down payment. 5% cash buys this property. Seller financing available. You've already negotiated it so it's certainly available. Seller financing available. Assumable mortgage, seller financing available, low interest rate. Those are the type of keywords you wanna lace into this two minute message. But at the end of the two minute message, this is on our voice box. At the end of the two minute message we say, serious buyers or agents only. Proof of funds required with a contract. And actually, I would even maybe say, proof of funds required with an offer, these days. We did this recently. Proof of funds required with an offer. When you make an offer, send a proof of funds with it. And a proof of funds is, like, send me a bank statement that shows that amount of cash that you're gonna need to bring to closing, in the bank, today. That's a proof of funds. So, we're gonna get them all excited and then at the very end, we're gonna burst the bubble on those who can't close by giving the qualification.

So, let's go over the voice box script template. Now, this will be posted on the resource vault as well. Be putting this up. Look for it. This is one that I've… just for deals that I've down with one of my deals. Just one… I think it's just one page here. Yeah, one page. I'll just read it to you while I put it on your screen here. And I like to keep it within two minutes because I think that's about the attention span. And actually, it's gonna take some practice to squeeze in within two minutes. Two minutes is not quite as long as it sounds. This one I'm gonna read to you, at least when I read it, when I recorded it, was right at two minutes. It says, hello. This is the property info line for the Houston apartments advertised. This property is perfect for someone looking for passive income and a quick takeover situation. Very little needs to be down at the property and it's priced below the market for a quick sale. Note, I'm getting the keywords in there. There is seller financing available. Big one, big keyword. There is a phone number for qualified buyers to call at the end of this brief message. Now, I'm telling them that because I want them to listen all the way to the end. Alright? I go on. Qualified buyers must provide proof of funds with a contract. Brokers are welcome. Now, in this script I'm actually... in two places, I'm telling them up front that they need to provide proof of funds. I'm gonna say it again at the end.

Okay, now I'm gonna explain the property. Up to now all I've done is thrown keyword rich phrases at them to get them willing to listen to the full message, right? And I've told them there's gonna be a phone number at the end, so listen all the way through. And I've also told them… where did I say? Let's see. It's a brief message. It's a brief message. Okay. This property is 5 apartment units located in northwest Houston. There are two one bedroom units and three two bedroom units. Four of the five units are occupied and a slight make ready is needed for the vacant unit. The 5 units are class C, with rents ranging from $425 to $625. Alright, so I'm narrowing my buyers. Let them know it's a class C. For those investors interested in passive, hands free investing and professional property managers available that has experience in class C property management. They can provide complete and turnkey property management. Their service is optional. I'm appealing, here, to an out of state owner, for example. It's turnkey, stable situation. The total property taxes are approximately $1,800 dollars per year. The total insurance for all five units is approximately $2,000 per year. The cap rate is 10.3%, performing well above the market average. The total purchase price is $125,000. Again, there is seller financing available with good credit. The existing mortgage is not assumable. I'm dealing with seller financing, again. This deal won't last long. Scroll down. Make sure you guys can see this. Let's see. Check your screen. Alright.

Then it goes on. If this real estate investment… if this real estate, income investment is of interest to you, contact Lance Edward in Houston at… and I give them a number. Thank you for… that's gonna be a number where they can reach me, okay, to talk about it. But again, I'm gonna say, one last time, qualified buyers only, please. Proof of funds is required with all contracts and I would actually change that, with all offers. Call. And you give the phone number. This is how they're gonna reach you. Now again, here's some notes at the very bottom. It talks about what I already shared with you about how to craft a voice box message. It say, number four, the keyword are more important than the speech recording. Keywords. People hear the keywords. They're gonna call you based upon that. Okay. Now, there's even some more keywords here in that box. We'll be putting this script on your resource vault as well. Okay. That's the voice box message. Again, this is one of our automated systems.

Alright, now they call. They've gone through this screening. They've gone through the filtering. They're interested. They call me. I have not given them… by the way, in that voice box, all I told them was five units in Houston, Texas, class C. That's it. Told the rent ranges. That's all I told them. But I threw a lot of keywords in there to get them very interested. So, before I give them detailed information, I wanna protect myself. I'm gonna have them sign a non-disclosure, non-compete agreement. An NDA, non-disclosure agreement. I do not disclose the location. I do not disclose anything, when they call up, they say, hey, I'm calling about this deal. What can you tell me about it? Well, I need to first send you a non-disclosure agreement before I can share with you the details. It's just too good of a deal. Where do I send it? You absolutely require that before you share anything.

Now, if you want to, you could have an executive summary, a very sanitized executive summary to send to someone. But many times, you don't even need that. You just get them to sign an NDA, which is a very common practice, before you send them anything. After the non-disclosure, non-compete agreement is signed, then you can provide them everything. You can show them the financials. You can give them a copy of your contract because they're making a decision about buying the contract to buy the property, so they need to see everything. And you protect yourself with the NDA.

So, there's the NDA. I'm just gonna show you a copy. I'm not gonna go through it tonight. It's boring legalese but it's standard. Let me… where is it? Let's see. Right here. This… I'll be also posting this on your resource vault. Confidentiality, non-circumvention agreement where you fill in the blanks. You can hand write the blanks. Send it to them. Sign it. Send it back. One page. Okay. So look for that on your resource vault. That's too dry to review. So…

Now, for your executive summary, what you're gonna give them. The executive summary is gonna describe your project. You're gonna describe the opportunity for the buyer. How are they gonna make money at it? You need to paint… we're gonna paint the vision with an executive summary. We're gonna paint the vision for this buyer of how they're gonna make money at it. Remember, we started off the whole virtual boot camp. I gave the definition of an entrepreneur. An entrepreneur is someone who sets the vision and gets it accomplished with the talents, time, talents and resources of others. So in this case, we need to set the vision for our buyer. Let them see what this property could be. Let them see how they're gonna make money at it. The better job we do in painting the picture, the better it is… the easier it's gonna be to attract a buyer and get them to sign up to buy this contract. We're gonna show them financial projections. Are we gonna show them actuals or pro forma? Pro forma. Now, we're gonna be handing them all the actuals in the world. We're gonna give them the P and L's. They're gonna have everything to evaluate on their own, but in our executive summary, I wanna paint a picture. So I want a pro forma picture. So remember, we buy on actuals. We sell on pro forma. This is me being schizophrenic again. Opposite of what I teach you as a buyer.

Now, if there's any special financing, you wanna highlight that in the executive summary. We wanna show them how easy it is to get into this deal. It's either got an assumable mortgage, seller financing. We wanna explain the low cash requirement, assuming we've negotiated low cash requirements. Now, this says, if it's a heavily advertised project, don't divulge the identity too much. That assumes you're giving the executive summary out before the NDA. Frankly, I haven't… most people will sign the NDA first, then you can give an executive summary with more of the details.

Now, I will be posting an executive summary on the resource vault for you. Actually, that's one of my bonuses I wanted to surprise you with. Surprise. I'll be posting an executive summary for you on the resource vault. This is one of the deals we're marketing recently, just in the last three months. So I'm gonna pull that one, put it on the resource vault so you can see a sample executive summary. They're not complicated. Concise, keyword rich. That's why I'm going back here. This doesn't have to be a lot of words. It's gotta be keyword rich and allow them to paint a picture. Allow them to actually to see the vision that you've painted for them.

Okay. So now, we've got them interested. Here's how we qualify the buyer. Important step, remember, because we're looking for a qualified buyer. Not just any buyer, a qualified buyer. And before we get a contract from them, these are questions we can be asking them before they issue a contract. What is their experience with apartments? Have they bought some before? What's their funding capacity? I'd ask them, how much can you buy? How much can you afford to put down? And what's your funding source? Where's your proof of... where's your funding coming from? You gonna do a 1031 exchange? Do you have your own cash? Do you have a partner? You gonna do a joint venture? Do you have a line of credit? A lot of people are out there birddogging for others looking for deals, that's us included. Well, we don't wanna be talking to birddogs. I wanna be talking to the principals. And you're gonna ask them, again. They've already heard it in the voice box script before they even got on the phone with us. So we're gonna ask them again, will you be able to show proof of funds with an offer? Okay. Just point blank ask them. Don't waste time with those who don't have the funds. And the other question, this is kind of a trick question. What are they looking for? Do they know what they're looking for with any kind of precision or are they just tire kickers? We love for someone to speak with a clarity and a precision that you speak with coming out of a script, because that's someone who knows what they're looking for. They're a pro. Now, so this is how you qualify them before they even submit a contract. If they still submit a contract, proof of funds required with a contract and frankly, I say, proof of funds required with the offer. And proof of funds is simply a bank statement.

This deal I did in California, when I was advertising in the LA times. I had seven callers. Remember, I had seven callers to this ad in the LA Times. First person called, very interested. He said, I'd like to buy. Great. I sent him a contract. While I was waiting for the contract to come back, a second caller called. He said, I'm very interested in the property. What would it take for, to buy it? I said, well, I can tell you, there's one buyer ahead of you, but I haven't received his contract. He said, what would it take for me to get in first position? I said, pay my price and send me proof of funds with a signed contract. Said, give me two hours. Two hours later, signed contract gets faxed to my office. Proof of funds which showed… a bank statement, showed $450,000 cash in a bank statement. I said, you can close. Signed the contract and sent it back. Went with them. They showed proof of funds. I ended up selling some other property to the other guy when he finally called back. So, bank statement, line of credit. No pre-qual letters. A pre-qual letter is someone who goes to a loan officer and has them type up some letter that basically says, this person is prequalified for a loan, subject to validation. Basically people say this, this person is prequalified for a loan, subject to validation of their income, job and other information to be discerned. It's worthless. Any hack loan officer can produce one of those things. They're absolutely worthless. We wanna see bank statements, cash. Okay. That's qualifying the buyer. Again, big X, no tire kickers. No tire kickers. Proof of funds.

Last point before I take questions. Now, you've got a buyer. They've shown you proof of funds. You're negotiating. Here's the most important thing you wanna negotiate around: ability to close. Ability to close. Speed and certainty is what we value and we… unlike brokers who have a listing for a very long period of time, we typically have got 90 days to get these things. From the time we get the contract signed, we've got 90 days to get them closed. Clock's ticking. Now, I'm gonna go through the whole timeline next week with you, but we've only get 90 days to get them closed so we… we don't have time to dally around with buyers who are uncertain. We don't have time to have a buyer tie up the property for any period of time and then decide they don't want it. So, if someone has proved to me that they can close, are anxious to close and we're negotiating over the price, I will concede some on the price with the certainty they will close. Okay? So that's what's most important to us in wholesaling deals.

Alright, it's time for questions. But, before I take questions, it's also the top of the hour and before we take questions, let me give you your field assignment. And then I'll come back to the questions. Here's your assignment. It's on your screen. I want you to listen or read the remainder of module 3, which is modules 3c through g. That's on funding deals, doing creative structuring in deals. And I want you… have you listen to module 5. It's a short one in Multifamily Success home study system. It's on contracting and closing deals, which we'll be talking about next week. Contracting and closing. It's really about… this is gonna be important because you're not the one doing the closing, but you're gonna be the one orchestrating the closing. And we'll be talking about that in detail next week.

I want you to analyze three more deals on LoopNet. Practice on those. I want you to call up two new brokers, two more brokers. If you didn't do any this week, it's time to do it now. You've heard the testimonials from colleagues that did it this week. This is not rocket science. Just follow the script. For those of you who did it this week, call two more. Two new ones, two new ones. Bring your comments and questions next week. Alright, so that's your assignment. Now, you're gonna see… you're gonna start generating… you're gonna come across… you're likely gonna run across deals. When I tell you to go and talk to brokers, remember, just take the attitude it's practice. I'm just practicing. The worst thing that can happen, I'll be better next time I do it. So I just take that attitude and it takes the whole pressure off. But what you're gonna find is there's so many deals out there you're gonna come across… you know, good probability you'll come across a deal. And then, next week, you'll know what to do with it when we talk about making an offer.

Okay. Back to the questions. So who has questions on finding a buyer, a qualified buyer? Press star six or type in a question. No questions? Surely, there must be a question. Are you guys out there? I see you on the panel.

Tony: Hey, Lance. It's Tony, Palm Springs. Could you please read the conduit loan? My audio went dead about that time.

Lance: Sure. And let me go back to the screen. Let's go back here. This more complicated than I thought. Tell you what, let me just explain it to you. Sorry, I thought it... where is it back here? Okay, back to our question panel. Conduit loans. Conduit loans, let me tell you where they come from. Many times, they come out of the northeast and they're created… they'll pool together investors that are looking for income. And they'll accept, you know, 5% on their money, for example. But they'll accept 5% with the understanding it'll be out there for 10 years. So it'll be like 10 year loan. The income is there. These were securitized… many of these were secured by apartments. They have very high prepayment penalties because they wanna preserve the yield on these investments for the income investor so they get 10 years of constant income. That's why they have very high prepayment penalties. And so, when a conduit loan is in place, it is… has to be assumed. It has to be assumed. I mean, you could pay it off, but the prepayment penalty will be so ridiculous, it would just…it would kill your deal. It wouldn't make any sense.

The way you'll know if you have a conduit loan, or the way you'll suspect you have a conduit loan is it'll have a very high… it'll have a very low interest rate, like low fives, which doesn't look as low as it used to. But it'll be low fives. And when you ask the broker, what's the prepayment penalty? He'll kind of come back with a very large number. That's how you know you have a conduit loan.

Now, having a conduit loan is not necessarily good. It's not necessarily bad. It just kind of depends. And it really depends, mostly, on how much time is left before the conduit loan expires and you can put in place new financing. Typically these loans are put in place with like a 10 year balloon and… which means you can't refinance them. One of the disadvantages of them is, if you were buying a property that was a rehab and you were gonna create value, the common strategy is, okay, I'll buy this property. I'll put some money into it. I'll raise the value. And the way I will cash out is I will go refinance the property, pay off the original mortgage and the difference between the balance on the original mortgage and how much I'm refinancing for is cash I can put in my pocket, tax free, and still own the property. With a conduit loan, that option goes away, because if you were to refinance, you cannot pay off the underlying mortgage. And so no bank is gonna refinance if they can't have a new mortgage in place in first position. So, first of all, does that make sense, Tony? What I just said.

Tony: Yes.

Lance: There's more I wanna add to it, but I wanna make sure this part made sense. So, if you can't refinance it on a rehab, that's gonna make it less attractive to a lot of, a lot of buyers that you're gonna be flipping to. So, in cases… this is what we've done. When students have come across conduit loans, of course, we paint it as a huge disadvantage to us when we're negotiating with a seller and say, hey, you've got this conduit loan. I can't even… I can't refinance out of this things for seven years. Listen, that really damages the value of this property. You know, I would maybe, maybe be willing to give you this for is, but nowhere near what you're asking for. We'll use that as a negotiating ploy. But in that case, it would be a hindrance in trying to flip it.

On the other hand, if it's a very stable property and a very low interest rate, so there's a lot of cash flow being cranked out of it, then it can become…. then it'll be an advantage to your buyer. So you just need to understand that so you know how to position it with your buyer. Does that help you?

Tony: Yes. Got it. Thank you very much.

Lance: Great question, Tony, because… that's a great question because I'm gonna tell you right now, most... many brokers… I mean, this happened when Jim Craig was, years ago, first in the apprentice program. He had a deal. He was making an offer on it. And we were doing an apprentice session. He came to explain it to me. I said, yeah, that's a conduit loan. I said, you need to go ask the broker about that. Well, he went to the broker. The broker… and he asked the broker sand he asked the owner. By the way, the owners were two attorneys. They had no idea they had a conduit loan. They didn't know anything about the terms of the loan on their own property. So, it's another example where you guys are gonna be more equipped than many of the pros out there.

Who else has a question?

Kevin: I do.

Lance: Yes, sir. Who is this? Kevin?

Kevin: Yeah. Yeah, Lance, a question I have. Just, I wanna be… a wanna have something by the end of April and when I look at the properties, my thing is the timeframe. I find a property. I get it under contract. The clock starts ticking. Do I already have buyers lined up, because I've gotta… you know that's gonna take over this property, because the seller is now waiting for me to perform in some kind of way. Myself, seller, I mean, buyer, whoever. The clock is ticking. Do I have buyers already lined up in the queue, or as soon as I get it under contract, I'm on my bike pedaling all over town, all over the country trying to find buyers? How does that sequence work when the rubber meets the road?

Lance: Alright. Good question. And we'll talk about this in more detail next week, but let me give you the short answer, Kevin, is, the time to start looking for your buyers is when you're in the letter of intent phase making your offer. And if you believe this deal's gonna… you're gonna get it under contract, go ahead and start advertising for buyers then. Don't wait until you have it under contract. You can start in the LOI phase. Because when you're starting out, you're not gonna have your buyers. I don't want… listen, let me make it clear. I don't want anybody going out looking for buyers first. Here's why, it's because, a couple reasons. Number one, you'll never end up doing a deal, because you'll be forever trying to find a buyer and you'll never create a deal. But number two, more importantly, the buyer that we're looking for is gonna be a function of the type of deal we have in hand. The buyer of a rehab project is different profile than the buyer of a stable property. And so, we need to have our deal in hand, because the question… remember the question we started off with tonight. Who is predisposed, who is predisposed to wanna buy this kind of property? So we always have to have a deal first. And so, that's why I keep reinforcing this with all students. So, Kevin. When your LOI… you're in the… let's say, you're in the middle of the negotiation with the LOI and you just feel like it's gonna happen. I'd start advertising then. Get the word out. Get the word out. Get the word out.

Kevin: Alright, thank you.

Lance: You're welcome. And all those sources we talked about. And you might just… maybe you start with all the free ones first until you actually have it under contract. There's a lot of free sources. I'd throw it on LinkedIn. Probably one of the first places I'd hit is LinkedIn. Get your voice box set up.

Student: Lance.

Lance: Yes.

Student: Question number two, real quick. The first deal is probably… I mean, is there a possibility to partner up with you on a deal when we're birddogging for you and you could help us possibly put a deal together? I mean, there still a learning curve there for most of us and is there a possibility to work something like that?

Lance: I'm actually... I'm actually gonna be discussing that in just a moment.

Student: Okay.

Lance: Yep, that's Apartment Wealth Factory. Who else has a question? No questions? You guys got it? Okay. So, let's see. Make sure the big board… no questions on the big board, here. I see no more questions. Alright. There's the field assignment. Now, this is gonna formally end tonight's session.