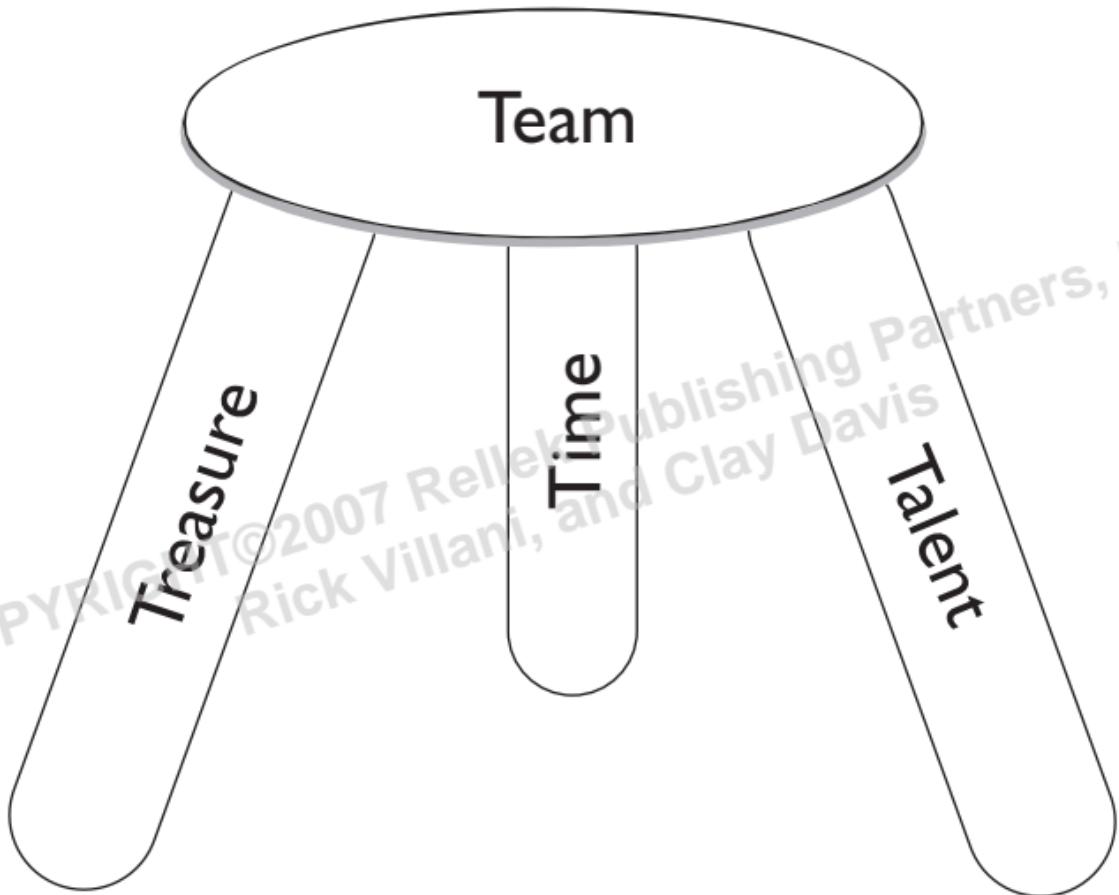
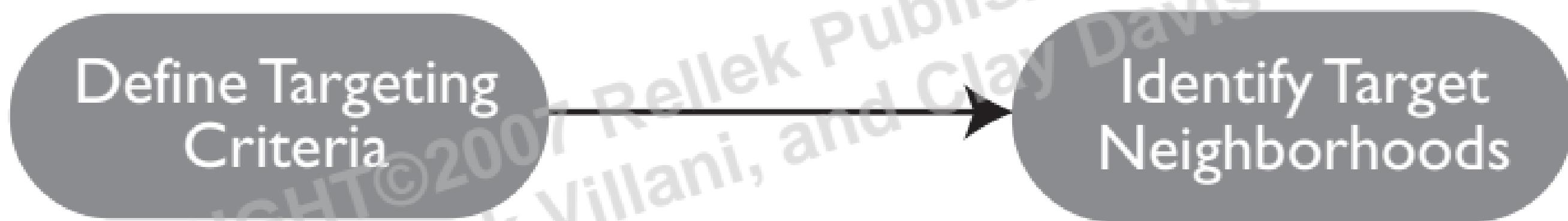


Figure 1 The Five Stages



**Figure 2** Your Real Estate Investment Platform

# The Targeting Process



**Figure 1-1** The Targeting Process

## The Five Benefits of Defining Target Neighborhoods

- |                                   |   |
|-----------------------------------|---|
| 1. Lower Cost Per Qualified Lead  | Your money is focused on maximizing high quality leads and minimizing the unwanted ones.  |
| 2. Less Time Qualifying Leads     | You spend less time filtering and rejecting unwanted leads.   |
| 3. Find Houses Quicker            | You become an expert in your target neighborhoods enabling quicker assessment of what houses sell for and what they cost to fix up. |
| 4. Buy More Houses                | You will have more qualified leads which means more house-buying opportunities.   |
| 5. Buy the Most Profitable Houses | You can be choosey about what deals to take because you have more leads to choose from.   |

Figure 1-2 The Five Benefits of Defining Target Neighborhoods

## The Six Neighborhood Targeting Criteria

1. Proximity of the neighborhood to your work and home.
2. Selling prices of the homes in the neighborhood.
3. Sales activity of the homes in the neighborhood.
4. Ages of the homes in the neighborhood.
5. Appeal and charm of the neighborhood.
6. Safety of the neighborhood.

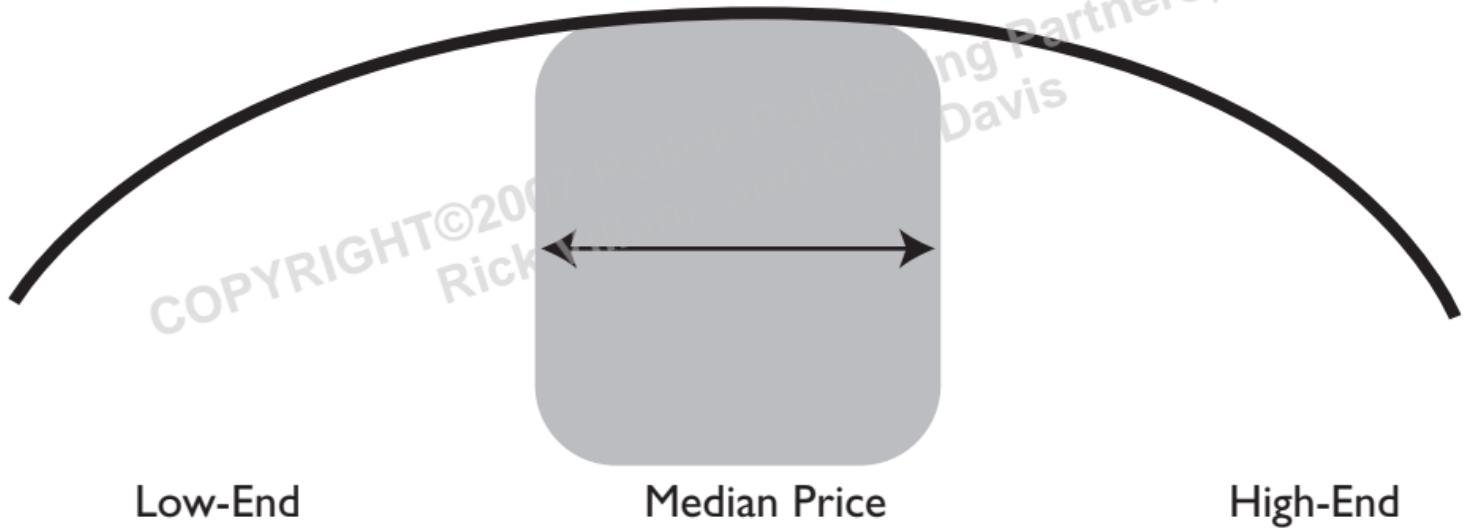
**Figure 1-3** The Six Neighborhood Targeting Criteria

# **Buy What Will Sell**

Never buy a house  
just because it's  
cheap!

Stick to houses near the median selling price for an area. By definition that's where most people buy.

Avoid the high end unless you are an experienced investor.



**Figure 1-4** Buy What Will Sell

## The Nine Key Areas of MLS Information

1. Square footage
2. Price per square foot
3. Property taxes
4. Year built
5. Sales prices
6. Days on market and days to sell
7. Features (bedrooms, bathrooms, living and dining areas, etc.)
8. Amenities (garages, decks, pools, basements, etc.)
9. Neighborhood schools

**Figure 1-5** The Nine Key Areas of MLS Information

## Price per Square Foot Selling Price Range

A wide range shows that the neighborhood has investment potential



The homes at the low end  
are your buying opportunities

The homes at the high end  
show the rehab potential

**Figure 1-6** Price per Square Foot Selling Price Range

## The Nine Neighborhood Appeal Factors

1. An established reputation
2. Clean and well-kept yards
3. A low crime rate
4. Good starter homes (smaller, relatively affordable)
5. Close to schools
6. Close to shopping
7. Close to mass transportation
8. Close to business centers
9. Close to parks and recreation

**Figure 1-7** The Nine Neighborhood Appeal Factors

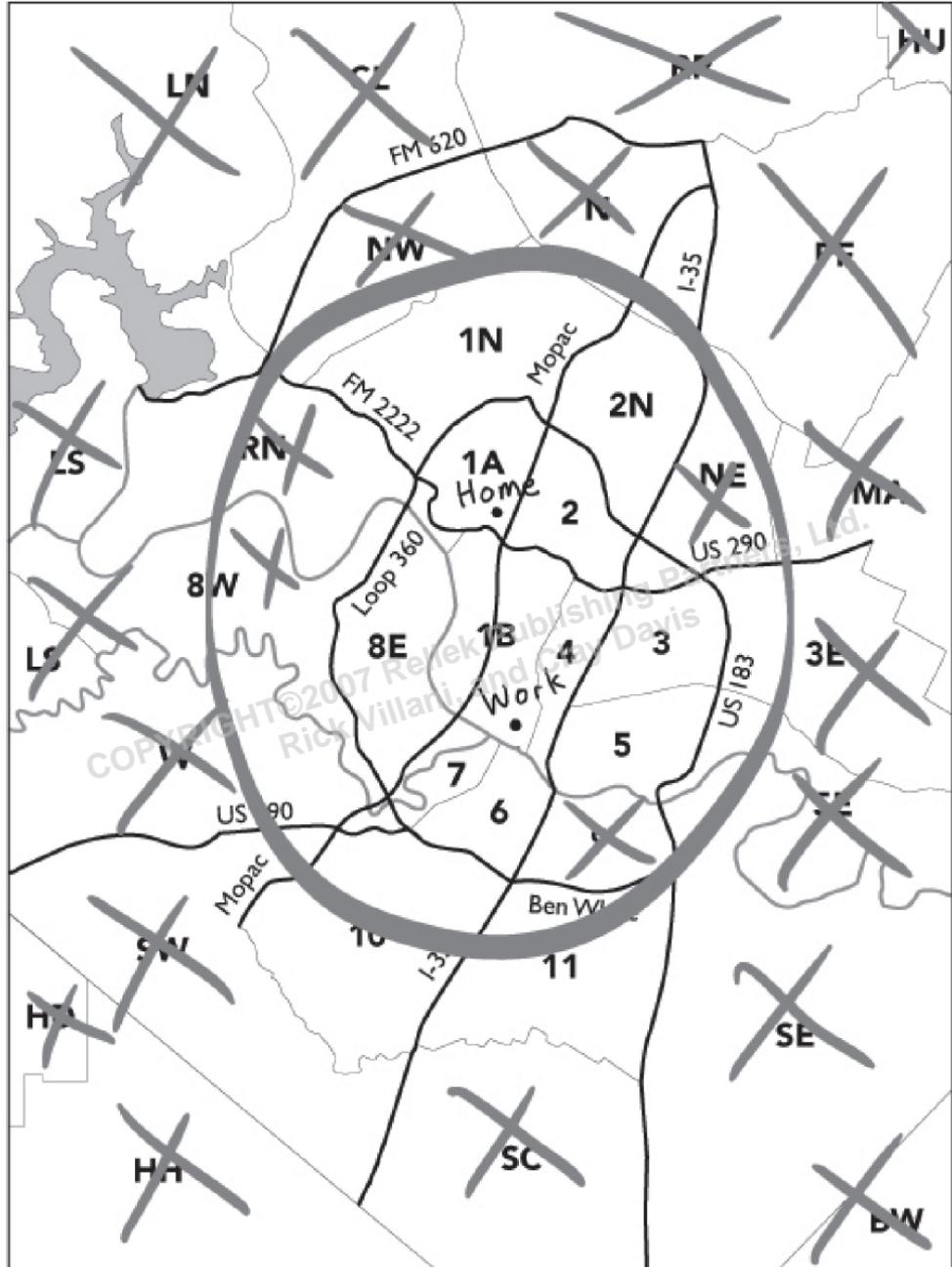
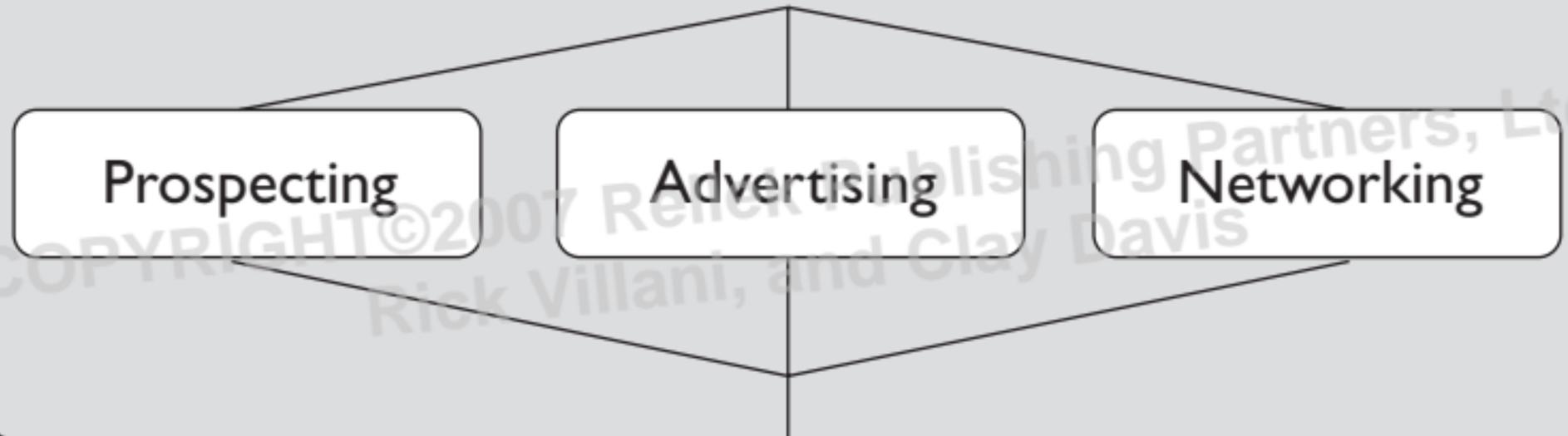


Figure 1-8 Target Neighborhoods in Austin, Texas

# **Generate Leads**



**Figure 2-1** Generate Leads

## Lead Generation Comparison

	Prospecting	Advertising	Networking
Focus	An interesting house...	An interested seller...	People who help you find interesting houses or interested sellers...
Activity	Searching	Attracting	Connecting
Cost	Low	High	Low

Figure 2-2 Lead Generation Comparison

# Generate Leads

Prospecting

Advertising

Networking

Figure 2-3

# Four Places to Prospect

1. Your Target Neighborhoods
2. The Multiple Listing Service
3. Classifieds
4. Foreclosures

Figure 2-4 Four Places to Prospect

# **Do You Need to Sell Your House?**

**We Pay Cash and Close Quickly!**

Dear [Property Owner],

We would like to buy your house at [Property Address].

If you are interested in selling, please call my office at (555) 456-7890.  
We'll send you a written offer the next day.

I would appreciate a call one way or another so I'll know you received  
this card.

Thank you,

[Your Name]

[Your Company Name]

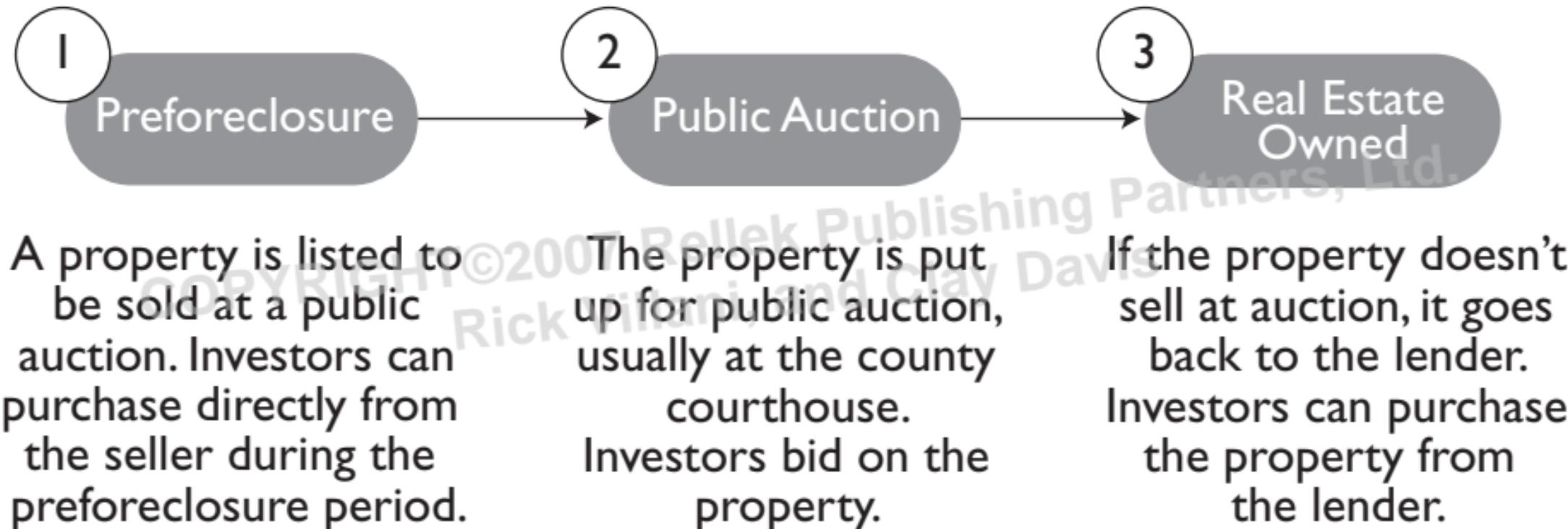
**Figure 2-5** Sample Postcard

## Clues to Rehab Properties in Real Estate Ads

- “Handyman special”
- “Vacant”
- “Motivated seller”
- “Must-sell”
- “As-is”
- “Needs work”
- “Fixer-upper”
- “Estate sale”
- “Needs updating”
- “Great neighborhood”
- “Charming”

**Figure 2-6** Clues to Rehab Properties in Real Estate Ads

## The Three Phases of Foreclosure



**Figure 2-7** The Three Phases of Foreclosure

## **Other Sources of Foreclosures and Auctions**

- U.S. Department of Housing and Urban Development (HUD)
- Veterans Administration (VA)
- Federal Housing Authority (FHA)
- Federal National Mortgage Insurance Association (Fannie Mae)
- Federal Home Loan Mortgage Corporation (Freddie Mac)
- Internal Revenue Service (check your local IRS office)
- Property Tax Sales (check your local taxing authority)

**Figure 2-8** Other Sources of Foreclosures and Auctions

# Generate Leads

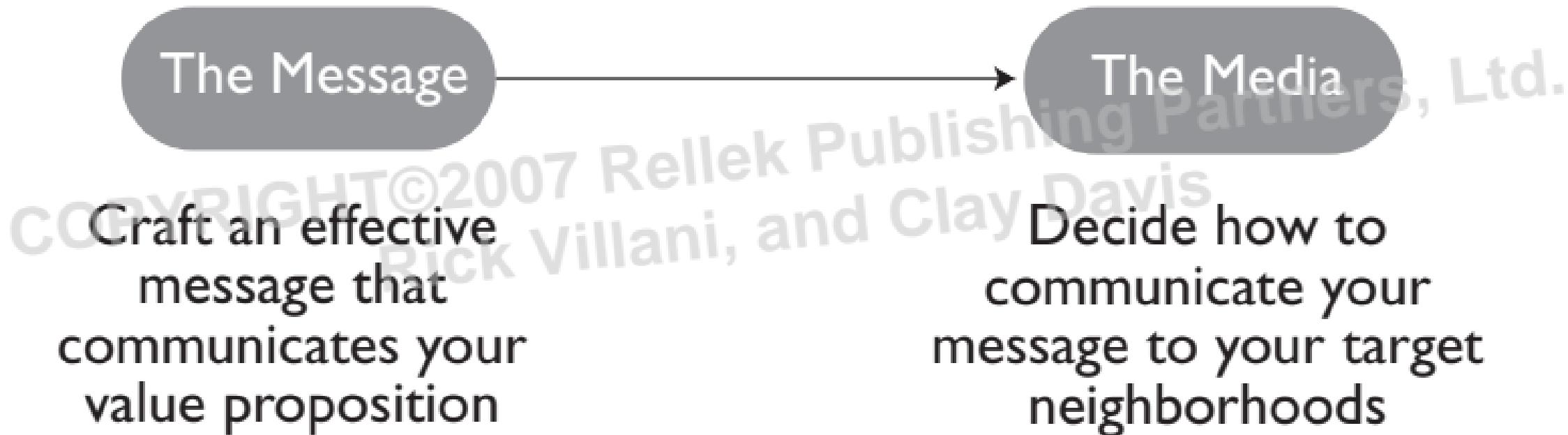
Prospecting

Rellek, Publis  
Advertising  
Villani, and Clay

Networking

Figure 2-9

# Keys to a Successful Advertising Campaign



**Figure 2-10** Keys to a Successful Advertising Campaign

## Message Examples

- “Avoid foreclosure. Cash for your home. Call Now.”
- “Need to sell soon? I can help.”
- “Sell your house now. No hassles. Fast cash.”
- “Problem-fixer. House-fixer. I buy homes.”
- “Get out from under your roof TODAY”
- “Keep [neighborhood] beautiful. Sell me your home.”
- “Buried in debt? I buy [neighborhood] houses hassle-free.”
- “Looking for [neighborhood] homes to buy today.”

Figure 2-11 Message Examples

## The Six Most Popular Advertising Mediums

1. Direct Mail
2. Business Cards
3. Signs
4. Print Advertising
5. The Internet
6. Radio and Television

**Figure 2-12** The Six Most Popular Advertising Mediums

## Four Types of Advertising Signs

1. Yard Signs	Signs posted in the yards of your current flip projects
2. "Bandit" Signs	Signs posted in high-traffic areas (make sure they are posted legally)
3. Billboards	Can be pricey, but some investors find the return rate very high
4. Car Magnets	Printed signs that are magnetized to stick to your car door

**Figure 2-13** Four Types of Advertising Signs

## Other Advertising Ideas

- T-shirts or other apparel
- Door hangers
- Exhibiting at local home shows
- Sponsoring a Little League or other team
- Flyers in direct mail packets such as Valpak or Money Mailer
- Company newsletters

**Figure 2-14** Other Advertising Ideas

# Reach and Frequency

Reach

Frequency

How many people are in the target audience of an advertisement?

How often is an individual in your target audience exposed to an advertisement?

Figure 2-15 Reach and Frequency

# Reach versus Frequency

Reach

Frequency

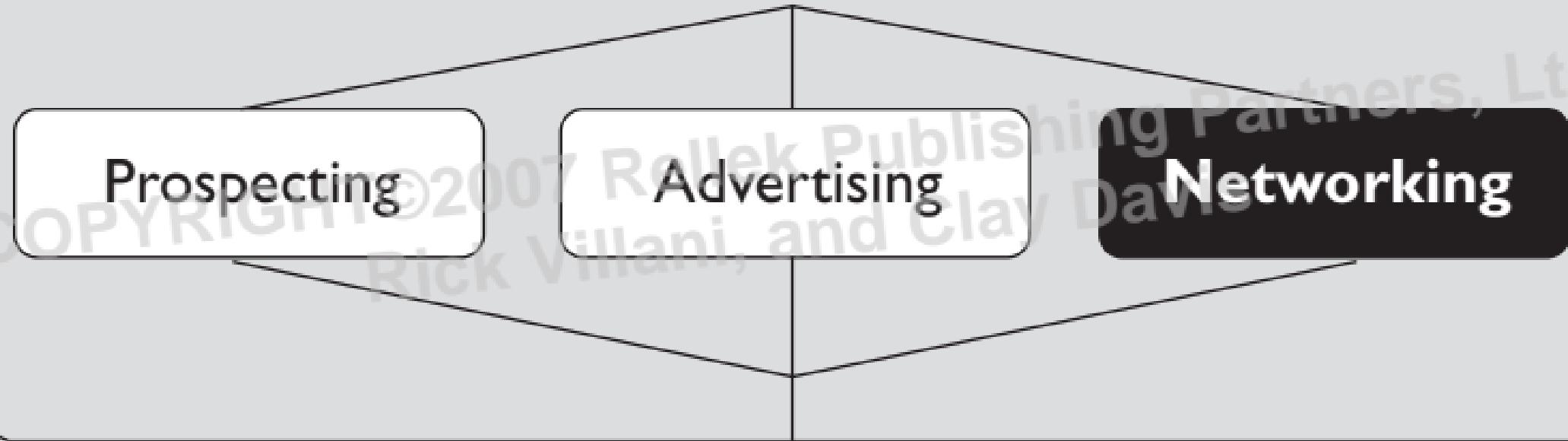
It's better to narrow your reach to increase the frequency.



Sending one postcard to the houses in five neighborhoods costs the same as sending five postcards to houses in one neighborhood.

Figure 2-16 Reach versus Frequency

# **Generate Leads**



**Figure 2-17**

## The People in Your Network

1. Other Investors
2. Realtors
3. Appraisers
4. Lenders
5. Inspectors
6. Lawyers
7. Accountants
8. Contractors
9. Courthouse Clerks
10. Builders
11. Developers
12. Neighborhood Residents

Figure 2-18 The People in Your Network

## Categories of Your Network

Resources	People who might send you leads.
Allied Resources	People who can and will send you leads.
Advocates	People who will absolutely send you leads.
Core Advocates	People who are in a great position to send you leads and will.

**Figure 2-19** Categories of Your Network

Source: From *The Millionaire Real Estate Investor* by Gary Keller

## Your Networking Script

Introduce Yourself	Tell them who you are and why you are calling
Share Target	Tell them what type of house you are looking for and in what neighborhoods
Ask For Help	Give them your phone number if they ever hear about a property that fits your needs and if they know of anyone else who can help you find properties
Be Thankful	Say “thank you,” offer to help them, and follow up with a note or e-mail

**Figure 2-20** Your Networking Script

Source: From *The Millionaire Real Estate Investor* by Gary Keller

# The Three Fundamental House-Buying Criteria

1. In Your Target Neighborhood?
2. In Satisfactory Condition?
3. Not a Neighborhood Misfit?

**Figure 3-1** The Three Fundamental House-Buying Criteria

## Qualifying for Condition: Major Issues

1. Fire damage?
2. Lead paint?
3. Water damage?
4. Major foundation problems?
5. Collapsed roof?
6. Asbestos?
7. Major termite damage?
8. Aluminum wiring?

**Figure 3-2** Qualifying for Condition: Major Issues

## **Neighborhood Misfits: Aspects You Can't Change**

1. Unusual Architecture—roof pitch and elevation
2. Lot Irregularity—too small, too steep, odd shape
3. Layout—low ceilings, one bathroom or tiny kitchen without space to remodel
4. House Size—much too small or much too large
5. Street—unusually busy, parking issues due to nearby school or office
6. Neighbors—unsightly or oversized houses, commercial buildings
7. Infrastructure—power lines, retention ponds, railroad tracks, highway noise
8. Scene of a Crime—a crime or suicide can turn off buyers

**Figure 3-3** Neighborhood Misfits: Aspects You Can't Change

## Conditions of a Qualified Seller

### Means

1. Has equity in the house  
OR
2. Has cash to pay off the loan  
OR
3. Has an agreement with the lender to reduce the loan

### Motivation

1. Needs to sell quickly  
AND/OR
2. Doesn't want the hassle

**Figure 3-4** Conditions of a Qualified Seller

## Factors That Make a Seller Motivated

### Life Events

- Relocating to another city for a job
- Physically unable to maintain the property
- Divorcing and needs to sell

### Financial Hardship

- Can't afford existing house payments
- Already moved and now facing two mortgage payments

### Must Sell As Is

- Can't afford to fix the house and must sell it as is
- Is too busy to fix the house and wants to sell it as is

### Vacancy

- Doesn't want to remotely manage the repairs
- Unable to rent it

Figure 3-5 Factors That Make a Seller Motivated

# The FLIP Maximum Offer Formula

Eventual Selling Price

– Improvement Costs

– Quiet Costs

– Minimum Profit

---

= Maximum Offer

**Figure 1** The FLIP Maximum Offer Formula

# The Three Walkthrough Questions

1. What must I do?      What are the problems that need to be fixed?
2. What should I do?      What is the proper level of finish out?
3. What could I do?      What is the untapped potential?

**Figure 4-1** The Three Walkthrough Questions

## The Must-Do's: Problems You Must Take Care Of

### Safety and Security

- Windows don't close
- Windows don't lock
- Exterior doors don't close
- Exterior doors don't lock
- The house is not secure

### Cleaning and Disposal

- Junk in yard
- Trash and debris inside house
- Germs and grime on surfaces
- Pet odors

### Structural and Drainage

- Foundation is unstable or not level
- Floor joists are damaged, crooked, or unstable
- Rafters are damaged, crooked, or unstable
- Window and door headers are damaged, crooked, or unstable
- Roof is sagging, bulging, sway-backed, or unsupported

- Walls are crooked and/or bulging
- Foundation shows signs of settlement
- Chimney, porches, patio, or stairs are pulling away from the house
- Inadequate drainage
- Soil is not properly graded to keep water away from the home
- Water seepage in the crawl space and/or basement
- Wet or damp basement
- Buckled floors or mildewy odor in basement
- French drains are needed or are not functioning as intended
- Gutters and/or downspouts are needed or are in need of repair or replacement

### Pest Control

- Signs of active termites
- Fleas, roaches, spiders, wasps, hornets

Figure 4-2

## The Must-Do's: Problems You Must Take Care Of

- Bees
  - Indications of rodents
- ### Roof
- Roof leaks
  - Shingles are old, damaged, worn, or missing
  - Flashings are in need of replacement
  - Improper flashing
  - Rolled roof is wrinkled and/or damaged
  - Water standing on roof
  - More than two layers of shingles on roof
  - Vents need to be replaced
  - Decking is rotted and/or sagging
  - Pipe protrusions need to be painted
  - Nails need to be caulked
- ### Exterior Rough Carpentry (siding, fascia, soffit, exterior doors, exterior trim, garage door, porch, deck, columns, railings, privacy fence)
- Loose and rotted siding
  - Wood rot along bottom of siding
  - Siding in contact with soil
  - Fascia boards rotted
  - Soffit board and eaves have rotten wood
  - Wood rot at front porch column
- and/or railing
  - Wood rot at bottom of garage door posts
  - Water damage on lower panels of garage door
  - Door threshold is rotten
  - Doors are missing proper weather stripping
  - Deck, railings, and stairs in need of repair
  - Wood privacy fence damaged or missing pickets
- ### Interior Rough Carpentry
- Mushy subfloor
  - Rotted or termite-eaten studs
  - The floor, wall, or roof framing sags, bulges, or has deflections
- ### Windows
- Broken window glass
  - Window screens missing or damaged
  - Windows won't open or shut
  - Seal broken in double-pane glass (fogged)
  - Missing locks
  - Windows missing proper caulking
- ### Fireplace
- Fireplace/chimney has excessive creosote buildup
  - Bricks/mortar in need of repair

Figure 4-2 (continued)

## The Must-Do's: Problems You Must Take Care Of

### HVAC

- Furnace not functioning or at the end of its useful life
- Wall heater not functioning or at the end of its useful life
- HVAC system needed
- Condenser not functioning or at the end of its useful life
- Ducts are decaying and need to be replaced
- HVAC filter dirty; system in need of service
- Condensate line needs to be extended
- Exhaust fan units don't vent to the exterior
- Exhaust fans rattle
- Air vents are rusty and mildewed
- Thermostat needs to be replaced

### Plumbing

- Hot water heater not up to current code (height, flue, temperature and pressure (T&P) valve, overflow, combustion air intake)
- Walk-in shower (leaking shower pan)
- Toilet leaks, runs, doesn't flush, loose
- Bathtub is chipped, stained, cracked (needs to be replaced or refinished)

- Bathtub/shower handles leak
  - Sinks badly stained, scratched, chipped, or broken
  - Faucets drip or leak
  - Hot and cold water faucets reversed
  - Drains are slow or leaky
  - Gas space heaters and wall heaters present
  - Washing machine connections are badly corroded or leaking
  - Ice maker box leaking
  - Outside faucets leak and/or need vacuum breakers to prevent backflow
  - Old galvanized iron water supply lines are present
  - Connected pipes have incompatible materials
  - Main drain lines leak
  - Water supply lines leak
  - Vent lines not present
  - Sewer lines leak
- ### Electrical
- Ground fault interrupt circuit (GFCI) needed in kitchen, bathrooms, utility room, outside, unfinished basements, and garage
  - Smoke detectors needed
  - Electrical service insufficient
  - Old fuse system

Figure 4-2

## The Must-Do's: Problems You Must Take Care Of

- Old knob and tube wiring present
- Ungrounded outlets
- Hot and neutral wires are reversed (use outlet tester)
- Aluminum wiring present (typically mid-1960s to early 1970s)
- Damaged or missing outlets
- Damaged or missing switches
- Exposed wiring

### Masonry and Concrete Work

- Masonry is crumbling
- Stone, brick, or stucco siding in need of repair
- Brick in fireplace in need of repair
- Concrete underpinning cracked, missing, or in need of repair
- Sidewalks, driveway, patio cracked or in need of repair

### Insulation

- Inadequate insulation in attic or walls

### Walls

- Missing drywall/plaster
- Cracks in drywall/plaster
- Holes in drywall/plaster (behind doors from doorknobs, etc.)
- Loose drywall seams and corner bead
- Missing texture
- Wallpaper is worn and/or peeling
- Paneling is scratched or has holes

### Cabinetry

- Missing cabinet doors and drawers
- Cabinet floor (bottom) under sink is rotted and needs to be replaced
- Cabinets are rotted, worn, scratched, sagging

### Interior Doors and Trim

- Doors are damaged
- Doors are misaligned
- Window sill is water-damaged
- Baseboard is missing or damaged
- Doorjamb is cracked or damaged
- Space between the guardrails at the stairway is too wide

### Paint

- Paint is peeling
- Water stains on sheetrock ceilings
- Interior in need of paint
- Exterior needs caulk and paint

### Countertops

- Countertops are scratched and worn

### Tile and Vinyl

- Tile countertop is damaged
- Tile around bathtub/shower is missing or damaged
- Tile needs to be caulked
- Tile needs to be regROUTED
- Tile floor is missing or damaged
- Vinyl is peeling

Figure 4-2 (continued)

## The Must-Do's: Problems You Must Take Care Of

- Holes in vinyl

### **Hardwood Floors**

- Boards are termite-damaged or rotted

- Floors are badly stained

### **Hardware and Accessories**

- Doorknobs and deadbolts not functioning; doorstops missing

- Bathroom towel bars and paper holder missing

- Mirrors damaged

- Shower door missing or broken

### **Appliances**

- Range not functioning or at the end of its useful life

- Dishwasher not functioning or at the end of its useful life

- Wall oven not functioning or at the end of its useful life

- Cooktop not functioning or at the end of its useful life

- Vent hood not functioning or at the end of its useful life

- Microwave not functioning or at the end of its useful life

- Refrigerator not functioning or at the end of its useful life

- Garbage disposal not functioning or at the end of its useful life

- Trash compactor not functioning or at the end of its useful life

- Ice maker not functioning or at the end of its useful life

### **Carpet**

- Carpet in need of replacement (stained, worn, burn marks, holes)

### **Landscaping**

- Trees are overgrown and too close to the roof; shrubs need to be trimmed

**Figure 4-2** The Must-Do's: Problems You Must Take Care Of

## Four Design and Finish Levels

	<b>Basic</b>	<b>Standard</b>	<b>Designer</b>	<b>Custom</b>
<b>Front door</b>	Metal Six-panel	Metal fan lite	Stock wood	Custom wood with glass
<b>Side or back door</b>	Slab (flat, no panel)	Six-panel	Full-lite nine-lite	Custom wood with glass
<b>Windows</b>	Repair existing window	Aluminum	Vinyl	Wood
<b>Siding</b>	Repair (patch) siding	Vertical plywood siding (T1-11)	Hardiplank, possibly with some stone, brick, or stucco	Combination of several materials: Stone and stucco possibly with some Hardi, cedar, or metal
<b>Texture</b>	Spatter	Drag	Orange peel (remove any popcorn ceiling texture)	None or trowel
<b>Kitchen cabinets</b>	Stock white or oak	Stock oak (choice of stains)	Stock maple or cherry with a few glass doors	Custom species with a number of custom glass doors
<b>Bathroom cabinets</b>	Stock 24- or 30-inch vanity	Stock 30-inch vanity	Stock 36+-inch vanity with cultured marble top	Custom vanity cabinet with granite top

Figure 4-3

*(continued)*

## Four Design and Finish Levels

	<b>Basic</b>	<b>Standard</b>	<b>Designer</b>	<b>Custom</b>
<b>Interior doors</b>	Slab (flat, no panel)	Six-panel	Special-order hollow core	Special-order solid core
<b>Baseboards</b>	Repair or replace sections with existing type	3 inches or less high	4 inches or more high, paint grade	5 inches or more high, possibly stain-grade
<b>Window trim</b>	Sill and apron	Sill and apron	Sill, apron, and possibly window trim on first floor windows	All windows are completely cased and trimmed
<b>Crown molding</b>	No	No	Sparingly	Everywhere
<b>Openings between rooms</b>	Drywall	Drywall	Some cased openings in key places	Every opening is cased
<b>Wall paint</b>	Off-white	Off-white	A designer color	Color or faux finish
<b>Ceiling paint</b>	Same color as walls	Same color as walls	Shade of white	Designer choice
<b>Accent paint</b>	None	None	One or two walls	Several paint color changes for different rooms
<b>Trim paint</b>	Same color as walls	A shade of white	Usually a shade of white	Designer color or stained

Figure 4-3

## Four Design and Finish Levels

	<b>Basic</b>	<b>Standard</b>	<b>Designer</b>	<b>Custom</b>
<b>Millwork paint</b> (cabinets, mantle, etc.)	A shade of white	Same as trim paint	Usually an off-white	Designer color or stained
<b>Siding paint</b>	Match existing paint to prevent multiple coats	Safe color	Designer color	Designer color
<b>Exterior trim paint</b>	Same paint as siding	Same paint as siding	Same paint as siding or a shade of white or a designer color	Designer color
<b>Front door paint</b>	A color that goes with the siding and trim	A color that goes with the siding and trim	Designer color or stained	Stained
<b>Countertop</b>	Inexpensive plastic laminate	Moderately priced plastic laminate	Designer laminate, Silestone, basic granite	Custom granite (beveled bull nose, honed)
<b>Backsplash</b>	4-inch plastic laminate strip	Plastic laminate or one row of tile	Ceramic or inexpensive quarry tile	Custom quarry tile, glass tile, handmade or hand-painted tile
<b>Tub surrounds</b>	Basic white 4 x 4's	Basic 4 x 4's	Subway or other tile pattern	Quarry tile (mosaic or other pattern)

(continued)

Figure 4-3

## Four Design and Finish Levels

	<b>Basic</b>	<b>Standard</b>	<b>Designer</b>	<b>Custom</b>
<b>Shower surrounds</b>	Basic white 4 x 4's	Basic 4 x 4's	Subway or other tile pattern	Quarry tile (mosaic or other pattern)
<b>Flooring for kitchen</b>	Vinyl	Basic ceramic tile 12 inches x 12 inches	High-end ceramic tile or quarry tile	Slate, travertine, or hardwoods
<b>Flooring for bathroom</b>	Vinyl	Vinyl or basic ceramic tile 12 inches x 12 inches	High-end ceramic tile or quarry tile	Slate, travertine, or hardwoods
<b>Flooring for utility room</b>	Vinyl	Vinyl or basic ceramic tile 12 inches x 12 inches	High-end ceramic tile or quarry tile	Travertine or similar
<b>Flooring for front entryway</b>	Vinyl	Basic ceramic tile 12 inches x 12 inches	High-end ceramic tile or quarry tile	Slate, travertine, or hardwoods
<b>Kitchen sink</b>	6-inch stainless	7-inch stainless	9-inch overmount or undermount stainless	Farmhouse or other custom sink
<b>Kitchen faucet</b>	Chrome basic	Includes sprayer	Sprayer pulls from faucet	Custom one-lever

Figure 4-3

## Four Design and Finish Levels

	<b>Basic</b>	<b>Standard</b>	<b>Designer</b>	<b>Custom</b>
<b>Bathroom sink</b>	Integrated plastic (imitation cultured marble)	Integrated plastic (imitation cultured marble)	Integrated cultured marble or porcelain drop-in	Undermount
<b>Bathroom faucets</b>	Two-handle basic	One- or two-handle basic	One-handle satin nickel	Custom (e.g., oil-rubbed bronze)
<b>Surface mount lights</b>	White globe (some pull string)	White mushroom-type	Satin nickel mushroom or similar (not too expensive)	Special order (e.g., oil-rubbed bronze with custom glass)
<b>Special lighting</b>	None	None	Some recessed lights in kitchen, breakfast, and family room; some pendants	Recessed lights throughout (usually low-voltage halogen), under-cabinet lights, pendant lights
<b>Ceiling fans</b>	None	Cheap, white with light kit	Satin nickel with light kit	Special order with no light kit
<b>Appliances</b>	Hotpoint (usually white)	GE (usually white or black)	GE Profile (usually stainless)	GE Monogram or special (Viking, Sub Zero, etc.)
<b>Carpet</b>	Plush	Berber	Frieze	Wool

(continued)

Figure 4-3

## Four Design and Finish Levels

	<b>Basic</b>	<b>Standard</b>	<b>Designer</b>	<b>Custom</b>
<b>Doorknobs</b>	Inexpensive brass	Inexpensive satin nickel look	Brushed nickel look	Distressed pewter or oil-rubbed bronze
<b>Cabinet knobs and pulls</b>	None	None	Brushed nickel	Special order (e.g., distressed pewter)
<b>Towel bar</b>	Budget metal	Chrome	Brushed nickel or similar	Special order (e.g., oil-rubbed bronze)
<b>Bathroom mirror</b>	Cut and installed by a glass company	Cut and installed by a glass company	Framed (stock)	Special order (framed)
<b>Landscaping</b>	Cut grass	Cut grass, mulch gardens	Cut grass, install shrubs, plants, flowers, plant grass, mulch beds	Cut grass, install shrubs, plants, flowers, plant grass, mulch beds, install small trees, crushed granite, or stone walkways

**Figure 4-3** Four Design and Finish Levels

## **Western Hills Design Level Comparisons**

1. 1239 Mustang Run	Designer
2. 1198 Corral Cove	Standard
3. 1293 Wagon Trail	Standard
4. 1087 Prairie Dog Lane	Designer
5. 1072 Fence Post Trail	Designer
6. 1229 Round Up Bend	Designer
7. 1169 Wagon Trail	Designer
8. 1140 Mustang Run	Basic
9. 1210 Saddle Path	Designer
10. 1120 Corral Cove	Designer

**Figure 4-4** Western Hills Design Level Comparisons

## Five Opportunities to Extract Untapped Potential

1. Amenities Sprinkler systems, pantry cabinets, extra sinks, garage-door openers—the little things that make a house easier to live in
2. Openings Widening room openings and/or removing walls between the kitchen and living areas
3. Conversions Turning a garage, basement, attic, porch, or covered patio into heated and cooled living space
4. Additions Adding additional bedrooms, bathrooms, bonus rooms, or even an entire second story
5. Layout Changes Major remodeling that involves changing the entire layout of the house

**Figure 4-5** Five Opportunities to Extract Untapped Potential

## Western Hills Design and Remodeling Comparisons

Address	Finish Level	Amenities	Openings	Conversions	Additions	Layout Changes
1. 1239 Mustang Run	Designer	Sprinkler System	✓			
2. 1198 Corral Cove	Standard		✓			
3. 1293 Wagon Trail	Standard	Sprinkler System				Master bed/bath
4. 1087 Prairie Dog Lane	Designer	Sprinkler System	✓		Garage	
5. 1072 Fence Post Trail	Designer	Sprinkler System	✓			
6. 1229 Round Up Bend	Designer	Sprinkler System	✓			
7. 1169 Wagon Trail	Designer	Sprinkler System	✓		Back Porch	
8. 1140 Mustang Run	Basic					
9. 1210 Saddle Path	Designer	Sprinkler System	✓			
10. 1120 Corral Cove	Designer	Sprinkler System	✓			Room over garage became master

Figure 4-6 Western Hills Design and Remodeling Comparisons

# FLIP Maximum Offer Formula

Eventual Selling Price

- Improvement Costs
  - Quiet Costs
  - Minimum Profit
- 
- = Maximum Offer

**Figure 5-1** FLIP Maximum Offer Formula

## Four-Step Process for Determining the ESP

1. Pull the comps
2. Drive the comps
3. Read the market
4. Check with experts

**Figure 5-2** Four-Step Process for Determining the ESP

## CMA Search Parameters for 1202 Fence Post Trail

1. Recently Sold      Within the last three months
2. Nearby                In the Western Hills Subdivision
3. Similar Size          1,500–2,500 square feet
4. Similar Layout        3 to 5 bedrooms, 1.5 to 3.5 bathrooms
5. Similar Age           Built from 1977 to 1997

**Figure 5-3** CMA Search Parameters for 1202 Fence Post Trail

## Comparative Market Analysis for the Western Hills Subdivision

	Address	Price Sold	Square Feet	Price Per SQ FT	Beds	Baths	Stories	Year Built
1.	1300 Mustang Run	\$255,360	2,250	\$113	4	2	2	1983
2.	1684 Prairie Dog Lane	\$285,000	2,266	\$126	4	2.5	2	1983
3.	1900 Round Up Bend	\$322,950	2,484	\$130	4	2.5	2	1988
4.	1435 Wagon Trail	\$271,320	2,016	\$135	4	2	1	1982
5.	1400 Trails End Circle	\$244,900	1,786	\$137	4	2	1	1984
6.	1439 Wagon Trail	\$244,900	1,786	\$137	3	2	1	1985
7.	1905 Round Up Bend	\$343,000	2,417	\$142	3	2	1	1986
8.	1189 Rodeo Drive	\$289,900	1,997	\$145	4	2	1	1984
9.	1400 Saddle Path	\$299,000	2,057	\$145	4	3	1	1989
10.	1164 Rodeo Drive	\$285,000	1,939	\$147	3	2	1	1981
11.	1515 Coral Cove	\$356,393	2,247	\$159	4	2	2	1980
AVERAGE		\$290,702	2,113	\$138	4	2	1	1984
1202 Fence Post Trail			2,000		4	2.5	2	1987

Figure 5-4 Comparative Market Analysis for the Western Hills Subdivision

## The “Model” House in Western Hills

Square Feet	2,113
Bedrooms	4
Bathrooms	2
# of Stories	1
Age	1984

**Figure 5-5** The “Model” House in Western Hills

## Fence Post Trail versus the Model House in Western Hills

	The Model House	Fence Post Trail	Comparison
Square Feet	2,113	2,000	Worse
Bedrooms	4	4	Same
Bathrooms	2	2.5	Better
# of Stories	1	2	Worse
Age	1984	1987	Better
OVERALL			Same

Figure 5-6 Fence Post Trail versus the Model House in Western Hills

## The Five Visual Inspection Factors

1. Condition      The roof, siding, garage doors, windows, porches, driveway, walkways
2. Curb Appeal     The architecture, trees, lawn, landscaping, lot size, and grade
3. View            Water, city skyline, mountains, any eyesores
4. Street           Cul-de-sac, major street, major intersection, pride of ownership evident
5. Proximity to Infrastructure    Commercial businesses, factories, undesirable establishments, rail road tracks, highways, power lines, parking lots, bus stops

**Figure 5-7** The Five Visual Inspection Factors

## Visual Inspection Report for Western Hills Subdivision

Address	Comparison
1. 1300 Mustang Run	Better (+1)
2. 1684 Prairie Dog Lane	Worse (-1)
3. 1900 Round Up Bend	Worse (-1)
4. 1435 Wagon Trail	Same (0)
5. 1400 Trails End Circle	Worse (-1)
6. 1439 Wagon Trail	Same (0)
7. 1905 Round Up Bend	Same (0)
8. 1289 Rodeo Drive	Worse (-1)
9. 1400 Saddle Path	Better (+1)
10. 1264 Rodeo Drive	Better (+1)
11. 1515 Coral Cove	Worse (-1)
TOTAL	Worse (-2)

Figure 5-8 Visual Inspection Report for Western Hills Subdivision

## I 202 Fence Post Trail: Maximum Offer Formula

Eventual Selling Price	\$250,000
- Improvement Costs	
- Quiet Costs	
= Minimum Profit	
= Maximum Offer	

**Figure 5-9** 1202 Fence Post Trail: Maximum Offer Formula

# FLIP Maximum Offer Formula

Eventual Selling Price

– Improvement Costs

– Quiet Costs

– Minimum Profit

---

= Maximum Offer

**Figure 6-1** FLIP Maximum Offer Formula

## Consequences of Missed or Miscalculated Improvement Costs

### Increased Cost

The direct cost of the improvements

The cost of the extra holding time caused by making the improvements

- Extra interest
- Extra property taxes
- Extra utilities

The downward pressure on selling price if the project is extended into an unfavorable selling season

The opportunity cost of tying up your money in the same investment for a longer period of time

### Increased Time

The time of performing the additional improvements

The extra time caused by scheduling conflicts created by the additional improvements

The longer time to sell as a result of extending the project into an unfavorable contracting or selling season (bad-weather season, bad selling months)

Figure 6-2 Consequences of Missed or Miscalculated Improvement Costs

## Three Ways to Estimate Improvement Costs

	Thoroughness	Accuracy	Speed
1. Hire a Professional	Excellent	Good	Good
2. Do It Yourself	Good	Good	Poor
3. Use Rules of Thumb	Poor	Fair	Excellent

**Figure 6-3** Three Ways to Estimate Improvement Costs

## HomeFixers Cost List

QTY	Price Each	Extension	Plus Sales Tax	Category	Subcategory	SKU	Room	Source Name	Description
I	\$164	\$164	\$177.12	Doors	Exterior Door	828-367	Exterior	Hardware Store	9-LITE - 36IN - LH - Exterior
I	\$219	\$219	\$236.52	Plumbing	Bathtub	167-347	Bathroom	Hardware Store	AMERICAST RIGHT HAND TUB-WHITE
I	\$139	\$139	\$150.12	Cabinets	Bathroom Cabinets	245-490	Bathroom	Hardware Store	Bathroom Vanity Base Cabinet W/Sink - Oak - 30IN WX18IN D
I	\$56.49	\$56.49	\$61.01	Doors	Interior Door	601-063	Entire House	Hardware Store	6-PANL - 30IN - RH - Interior - Prehung (JLQB)
I	\$22.50	\$22.50	\$22.50	Carpentry Labor Cost	Finished Carpentry Labor	Labor Cost	Entire House	Marvin	Install prehung doors throughout the entire house (PER DOOR)
35	\$0.39	\$13.65	\$14.74	Carpentry	Finished Carpentry Materials	707-066	Entire House	Hardware Store	Trim/Base - Primed - 11/16IN X 2-1/4IN (PER FT)
35	\$0.29	\$10.15	\$10.15	Carpentry Labor Cost	Finished Carpentry Labor	Labor Cost	Entire House	Marvin	Install trim around all doors (PER LINEAR FT)
I	\$11.63	\$11.63	\$12.56	Electrical	Light Fixtures, Bulbs, Etc.	284-904	Bedrooms	Hardware Store	Bedroom Light Fixture - 9.25IN - Mushroom - Ribbed Glass - Polished Brass - 2 60W Light Bulbs
I	\$1.37	\$1.37	\$1.48	Electrical	Light Fixtures, Bulbs, Etc.	186-039	Entire House	Hardware Store	Light Bulbs - Soft White - 60W - 4-Pack - Philips DuraMax
I	\$5.93	\$5.93	\$6.40	Electrical	Smoke Detector	182-262	Entire House	Hardware Store	Smoke Detector - Fire Sentry
I	\$119	\$119	\$128.52	Plumbing	Kitchen Sink - Sink	170-097	Kitchen	Hardware Store	33X22X8.25 SINK SIGNATURE DBL BOWL - STAINLESS STEEL
I	\$66	\$66	\$71.28	Plumbing	Kitchen Sink - Faucet	817-865	Kitchen	Hardware Store	PRICE PFISTER FAUCET - 1 HDL KIT W/SPRY CH3H GENESIS
I	\$59.95	\$59.95	\$64.75	Plumbing	Kitchen Sink - Disposal	119-667	Kitchen	Hardware Store	1/2 HP BADGER 5 DISPOSER JLQ6
I	\$3.98	\$3.98	\$4.30	Plumbing	Kitchen Sink - Basket Strainer	767-770	Kitchen	Hardware Store	PVC SVTHTR BSKT STRNR-ASSEMBL JLQ2
I	\$11.99	\$11.99	\$12.95	Doors	Doorknobs	614-130	Entire House	Hardware Store	Kwikset - Bed & Bath - Doorknob - Polished Brass - Shelby (USE FOR BATHROOMS, MASTER BEDROOM AND ENTRY TO GARAGE)
I	\$8.91	\$8.91	\$9.62	Hardware	Bathroom Fixtures	137-011	Bathroom	Hardware Store	Toilet paper holder
I	\$299	\$299	\$322.92	Appliances	Range	339-118 or 355-386	Kitchen	Hardware Store	Electric Range - Hot Point - White
I	\$197	\$197	\$212.76	Appliances	Microwave/ Vent Hood	115-032 or 113-047	Kitchen	Hardware Store	Microhood - Hot Point - White
I	\$9.98	\$9.98	\$10.78	Landscaping	Shrubs	221-620	Exterior	Hardware Store	LIGUSTRUM WAXLEAF 3G

**Figure 6-4 HomeFixers Cost List**

## Improvement Complexity Comparison

Cost	Square Feet	Cost/SQ FT	Improvements
\$30,000	5,000	\$6	The basics such as paint, carpet, new fixtures
\$30,000	1,000	\$30	The basics plus roof, cabinets, countertops, tile and rough work like framing, plumbing, HVAC, electrical, sheetrock

**Figure 6-5** Improvement Complexity Comparison

## The FLIP Rule-of-Thumb Guidelines

	Basic	Standard	Designer
1. Make-Hab	\$3	\$5	\$7
2. Rehab	\$12	\$15	\$18
3. Remodel	\$20	\$25	\$30
4. Restructure	\$35	\$40	\$45

(Improvement Costs Per Square Foot)

**Figure 6-6** The FLIP Rule-of-Thumb Guidelines

## Improvement Costs Per Square Foot for a Standard Finish-Out

	Trade Category	Cost/ SQ FT	% of Total	Description
1	Cleanout	\$0.75	4%	Light demolition, includes one 40-yard dumpster
2	Broken Window Glass	\$0.15	1%	Replace glass only
3	Rough Carpentry	\$0.60	3%	Repairs only—includes replacing some rotted studs and subfloor inside and some rotted fascia
4	Roof	\$1.95	9%	20-year tear off and re-shingle for a one-story
5	HVAC New System	\$2.80	13%	New ducts, new inside and outside unit, vents and thermostat
6	HVAC Thermostat and Grills Only	\$0.25	1%	Programmable thermostat and new air vents
7	Service Panel Upgrade	\$0.80	4%	Service Panel Upgrade
8	New Bathtubs	\$0.40	2%	New Bathtubs
9	Drywall	\$0.70	3%	Equivalent to sheetrocking about 18% of the house
10	Cabinetry	\$2.00	10%	Standard stock oak—includes installation
11	Doors	\$0.45	2%	Includes a basic prehung metal front door plus two interior prehung doors and trim
12	Trim	\$0.25	1%	Includes replacing some baseboards, window sills, window aprons, and some repairs
13	Garage Door	\$0.60	3%	Standard aluminum, no windows
14	Interior Paint	\$1.50	7%	Interior two-color paint job
15	Exterior Paint	\$1.00	5%	Exterior two-color paint job
16	Countertops	\$0.30	2%	Plastic laminate like Formica or Wilsonart
17	Tile Tub Surrounds	\$0.50	2%	Standard 4" x 4" tile plus installation
18	Electrical Fixtures	\$0.80	4%	Includes installing new GFCI outlets; replacing some broken outlets, switches and jacks; new faceplates; new standard lights; fans; smoke detectors plus installation
19	Plumbing Fixtures	\$0.50	2%	Includes standard kitchen sink, faucet, bathroom faucets, toilets, toilet seats and installation cost
20	Plumbing Hot Water Heater	\$0.45	2%	40-gallon hot water heater
21	Flooring	\$2.14	10%	20% tile at \$4/SF and 80% carpet at 1.55/SF)
22	Hardware and Accessories	\$0.40	2%	Includes doorknobs, doorstops, towel bars, paper holders, bathroom mirrors, house numbers
23	Appliances	\$1.00	5%	Standard: stove, dishwasher, microwave, disposal and installation cost
24	Interim and Final Cleanings	\$0.20	1%	Sweep, dust, tub, windows, countertops, floors
25	Landscaping	\$0.45	2%	Landscaping: shrubs, flowers, mulch
	TOTAL	\$20.94	100%	

**Figure 6-7** Improvement Costs per Square Foot for a Standard Finish-Out

## I202 Fence Post Trail: Improvement Costs

Eventual Selling Price	\$250,000
- Improvement Costs	\$40,000
- Quiet Costs	
- Minimum Profit	
= Maximum Offer	

Figure 6-8 I202 Fence Post Trail: Improvement Costs

# FLIP Maximum Offer Formula

$$\begin{aligned} & \text{Eventual Selling Price} \\ - & \text{Improvement Costs} \\ - & \text{Quiet Costs} \\ - & \text{Minimum Profit} \\ = & \text{Maximum Offer} \end{aligned}$$

**Figure 7-1** FLIP Maximum Offer Formula

## I 202 Fence Post Trail: “TV Profit”

Eventual Selling Price	\$250,000
- Seller's Asking Price	\$179,000
- Improvement Costs	\$40,000
<hr/>	
= “TV Profit”	\$31,000

**Figure 7-2** 1202 Fence Post Trail: “TV Profit”

## 1202 Fence Post Trail: Full Price Purchase

Eventual Selling Price	\$250,000
- Seller's Asking Price	\$179,000
- Improvement Costs	\$40,000
- Quiet Costs	\$33,500
= Profit (or Loss in this case)	-\$2,500

Figure 7-3 1202 Fence Post Trail: Full-Price Purchase

## **Quiet Costs Categories**

1. Buying Costs      The costs incurred when you buy the house
2. Holding Costs      The costs accrued while you own the house
3. Cost of Money      The costs related to borrowing the money needed to purchase and improve the house
4. Selling Costs      The costs incurred when you sell the house

**Figure 7-4** Quiet Costs Categories

## I 202 Fence Post Trail: Buying Costs

Buying Costs	\$2,250
+ Holding Costs	
+ Cost of Money	
+ Selling Costs	
= Quiet Costs	

**Figure 7-5** 1202 Fence Post Trail: Buying Costs

## 1202 Fence Post Trail: Holding Costs

Buying Costs	\$2,250
+ Holding Costs	\$2,250
+ Cost of Money	
+ Selling Costs	
= Quiet Costs	

Figure 7-6 1202 Fence Post Trail: Holding Costs

# HomeFixers Holding Time Formula

Improvement Cost per SQ FT

÷ 10

---

= Months to Improve House

+ 2.5 Months to Market and Sell

---

= Total Holding Time

**Figure 7-7** HomeFixers Holding Time Formula

## I 202 Fence Post Trail: Holding Time

Cost/SQ FT	\$20
Months to Fix	2
Overhead Months	2.5
Months Holding the House	4.5

**Figure 7-8** 1202 Fence Post Trail: Holding Time

# I202 Fence Post Trail: Loan Interest

$$\begin{array}{rcl} \text{Interest per Month} & & \$1,700 \\ \times \text{Months Holding the House} & & 4.5 \\ \hline = \text{Total Cost of Money} & & \$7,650 \end{array}$$

Figure 7-9 1202 Fence Post Trail: Loan Interest

# I202 Fence Post Trail: Total Cost of Money

Interest	\$ 7,650
+ Points	\$ 5,100
= Total Cost of Money	\$12,750

Figure 7-10 I202 Fence Post Trail: Total Cost of Money

## I202 Fence Post Trail: Cost of Money

	Buying Costs	\$2,250
+	Holding Costs	\$2,250
+	Cost of Money	\$12,750
+	Selling Costs	
=	Quiet Costs	

Figure 7-11 1202 Fence Post Trail: Cost of Money

## Selling Costs

Real Estate Agent Commissions

The fees you pay to a real estate agent to market the house, negotiate, and close the sale

Closing Costs

The amount you pay when you close on the house (title, survey, appraisal, etc.)

Figure 7-12 Selling Costs

## I 202 Fence Post Trail: Selling Costs

Buying Costs	\$ 2,250
+ Holding Costs	\$ 2,250
+ Cost of Money	\$12,750
+ Selling Costs	\$16,250
= Quiet Costs	\$33,500

Figure 7-13 I 202 Fence Post Trail: Selling Costs

## I202 Fence Post Trail: Quiet Costs

Eventual Selling Price	\$250,000
– Improvement Costs	\$40,000
– Quiet Costs	\$33,500
<hr/> <u>– Minimum Profit</u>	
= Maximum Offer	

Figure 7-14 I202 Fence Post Trail: Quiet Costs

# FLIP Maximum Offer Formula

- Eventual Selling Price**
- Improvement Costs
- Quiet Costs
- Minimum Profit

---

- = Maximum Offer

**Figure 8-1** FLIP Maximum Offer Formula

## The Two Components of Minimum Profit

1. Base Profit      A percentage of ESP that you should receive for every flip
2. Rehab Risk Profit      Additional profit that you should receive based on the complexity of the improvements

**Figure 8-2** The Two Components of Minimum Profit

## Rehab Complexity

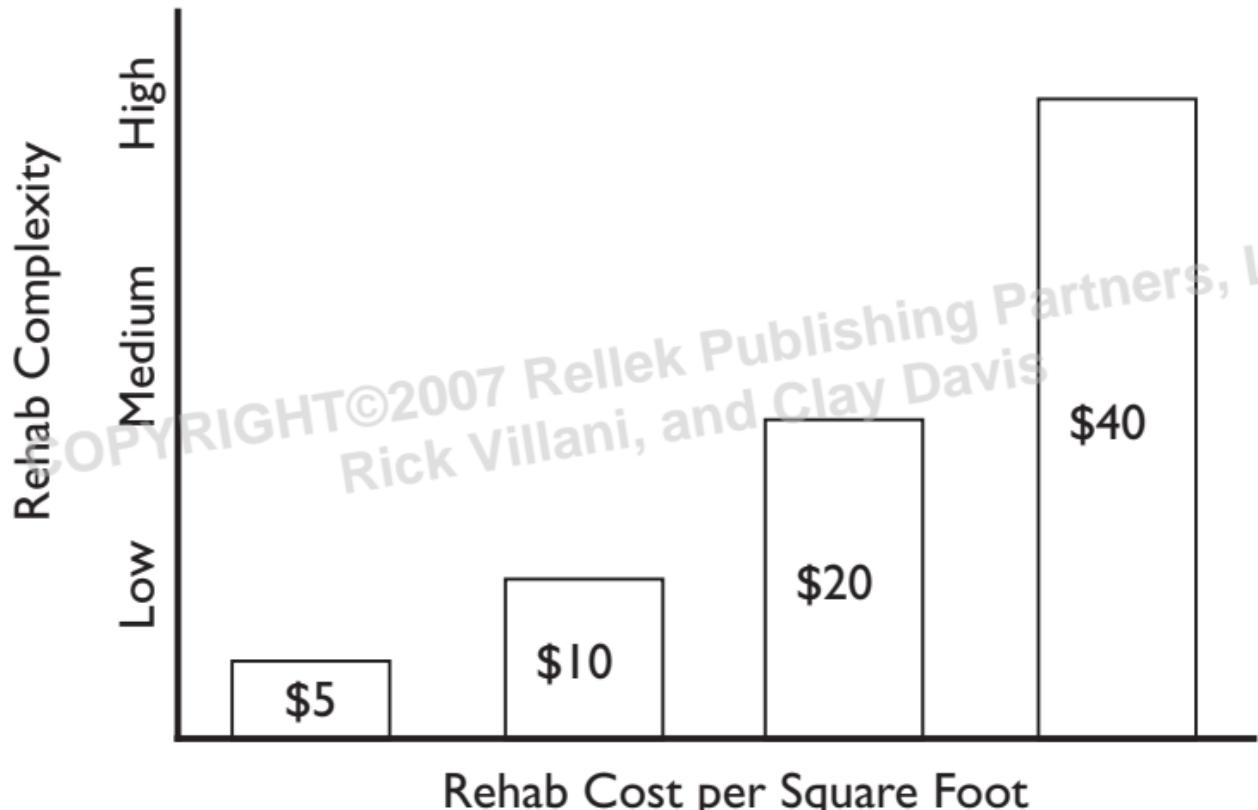


Figure 8-3 Rehab Complexity

# I 202 Fence Post Trail: Rehab Risk and Profit

Improvement Cost	\$20/SQ FT
÷ Rehab Risk Factor	\$5/SQ FT
Rehab Risk	4% of ESP

Figure 8-4 I 202 Fence Post Trail: Rehab Risk and Profit

## I202 Fence Post Trail: Minimum Profit

Eventual Selling Price	\$250,000
- Improvement Costs	\$40,000
- Quiet Costs	\$33,500
- Minimum Profit	\$35,000
= Maximum Offer	

**Figure 8-5** 1202 Fence Post Trail: Minimum Profit

## I202 Fence Post Trail: Maximum Offer

Eventual Selling Price	\$250,000
- Improvement Costs	\$40,000
- Quiet Costs	\$33,500
- Minimum Profit	\$35,000
= Maximum Offer	\$141,500

**Figure 8-6** 1202 Fence Post Trail: Maximum Offer

## **Financing a Flip**

1. Pay in Full
2. Attract Financial Investors
3. Borrow the Cash for a Flip
4. Partner to Get the Cash for a Flip

**Figure 9-1** Financing a Flip

# FLIP INVESTMENT SUMMARY

123 ELM STREET

2,000 square feet	Built in 1968	
3/2/2 floorplan	2 car garage	
2 stories	Slab Foundation	
1 Eventual Selling Price.....	\$110,000	100%
2 Improvement Costs.....	-\$ 19,000	17%
3 Quiet Costs.....	-\$ 11,000	10%
4 Minimum Profit.....	-\$ 20,000	18%
Maximum Offer.....	\$ 60,000	55%

## Qualifications

I am a new investor; however I have hired a reputable contractor to manage the improvement I am very familiar with the Live Oak Neighborhood as well as have put together a solid team of people to work with:

Cindy Smith	Real Estate Agent	Cindy Smith Team
Judy Russell	Interior Designer	Russel Interiors
Rick Vasquez	General Contractor	Vasquez Construction
Joe Byron	Accountant	Joe Byron, CPA
Fred Kern	Attorney	Kern & Golden

## 1 Eventual Selling Price

**\$55.00 per square foot    \$110,000**

Address	Floorplan	Square Feet	Selling Price	Price Per Square Foot
436 Pecan St.	3/2/2	2,150	\$119,000	\$55.35
826 Walnut St.	3/2/2	2,300	\$127,000	\$55.21
927 Hazelnut St.	3/2/2	2,220	\$121,500	\$54.73
Average		2,223	\$122,500	\$55.10

## 2 Improvement Costs

**\$9.50 per square foot    \$19,000**

This is a minor rehab, requiring the replacement of the HVAC unit, new appliances, and drywall repairs. I have hired a general contractor to manage the construction process.

### Top 5 Improvements

HVAC	\$4,000	
Appliances	\$3,500	
Final Electrical	\$2,000	
Drywall	\$1,000	
Demolition/Disposal/Site Prep	\$ 750	

## 3 Quiet Costs

**\$11,000**

Buying Costs	Closing Costs, Inspection, Survey, & Appraisal	\$ 2,700
Holding Costs	Property Taxes , Insurance, Utilities, & Maintenance	\$ 1,150
Selling Costs	Real Estate Commissions & Closing Costs	\$ 7,150
<b>Total Quiet Costs</b>		<b>\$11,000</b>

## 4 Minimum Profit

**\$20,000**

Excluding the cost of money, the profit on this investment is projected to be \$20,000. I am seeking either an equity partner or private money lender to help finance this opportunity. I am putting \$10,000 down and need \$80,000 to fund the purchase, improvement, and quiet costs. At my estimated selling price of \$110,000, \$80,000 has a loan-to-value ratio of 73%.

Purchase Price.....	\$60,000
Improvement Costs.....	+\$ 19,000
Quiet Costs.....	+\$ 11,000
Money Down.....	-\$ 10,000
Money Needed.....	\$80,000

Figure 9-2 FLIP Investment Summary

## Example Flip

Eventual Selling Price	\$110,000
- Improvement and Quiet Costs	\$30,000
- Purchase Price	\$60,000
<hr/>	
- Expected Profit	\$20,000

Figure 9-3 Example Flip

## Institutional Lending versus Private Money Lending

	Institutional Lending	Private Money Lending
Interest Rate	5–7% since the 1990s	10–20%
Points	0–2%	3–10%
Closing Costs	Similar	Similar
Closing Time	4 weeks or more	A few days
Qualifying	Personal credit and income	The value of the house

**Figure 9-4** Institutional Lending versus Private Lending

## Borrowing with a 4 Point, 12 Percent Interest Loan

Eventual Selling Price	\$110,000
- Improvement and Quiet Costs	\$30,000
- Purchase Price	\$60,000
- Cost of Money	\$8,000
<b>- Expected Profit</b>	<b>\$12,000</b>

**Figure 9-5** Borrowing with a Loan at 12 Percent with 4 Points

## Partnering with a 40 Percent Equity Partner

Eventual Selling Price	\$110,000
- Improvement and Quiet Costs	\$30,000
- Purchase Price	\$60,000
= Total Profit	\$20,000
Your 60% Share of the Profit	\$12,000

**Figure 9-6** Partnership with a 40 Percent Equity Partner

## Borrowing versus Partnering with a \$130,000 Selling Price

Borrow		Partner	
Selling Price	\$130,000	Selling Price	\$130,000
- Improvement and Quiet Costs	\$30,000	- Improvement and Quiet Costs	\$30,000
- Purchase Price	\$60,000	- Purchase Price	\$60,000
		= Total Profit	\$40,000
- Cost of Money	\$8,000		
		Your Profit	\$24,000
= Your Profit	\$32,000		

Figure 9-7 Borrowing versus Partnering with a \$130,000 Selling Price

## Borrowing versus Partnering with a \$90,000 Selling Price

Borrow		Partner	
Selling Price	\$90,000	Selling Price	\$90,000
- Improvement and Quiet Costs	\$30,000	- Improvement and Quiet Costs	\$30,000
- Purchase Price	\$60,000	- Purchase Price	\$60,000
		= Total Profit	\$0
- Cost of Money	\$8,000		
		Your Profit	\$0
= Your Profit (LOSS!)	-\$8,000		

Figure 9-8 Borrowing versus Partnering with a \$90,000 Selling Price

# Comparing Borrowing and Partnering

	Borrowing	Partnering
Profit	All Yours	Shared with Partners
Risk	All Yours	Shared with Partners
Repayment	Loan Must be Repaid with Interest	No Obligation to Repay
Cost of Money	Interest, Points, and Fees	None

**Figure 9-9** Comparing Borrowing and Partnering

# Two Steps to Presenting an Offer



**Figure 10-1** Two Steps to Presenting an Offer

## **Seven Elements in Establishing Trust**

1. An Awareness of the Seller's Situation
2. Your Value Proposition
3. Your Ability to Close
4. The Improvement Costs
5. The Quiet Costs
6. Your Expected Profit
7. The Cost to Sell at Market Value

**Figure 10-2** Seven Elements in Establishing Trust

## Sample Cover Letter

Dear Mr. Foster,

Thank you for the opportunity to make an offer on the house at 123 Elm Street. I understand that you are facing foreclosure and would like to sell your house as easily and quickly as possible. I am prepared to pay cash for your house and can close five days after the contract is signed. Please see the attached commitment letter from my lender stating that they will provide funds within five business days of my request.

As we discussed on the phone, I operate a business that buys houses, fixes them up, and sells them for profit. If I purchase the property, I estimate I will need to spend \$22,500 to fix and update the house. The major repairs include interior and exterior paint, new carpet, a new roof, new kitchen cabinets and countertops, and replacing the vinyl flooring with tile.

During the four to five months that I hold the house, I calculate that I will incur about \$17,000 in closing costs, loan interest, real estate agent commissions, property taxes, insurance, utilities, and maintenance. If everything goes as planned I hope to make about \$14,500 when I resell the property after making the improvements.

For you to sell the property to a non-investor, you would need to take on all the repairs and some of the updates referenced in the costs above. Keep in mind that to do this, you will also probably need to get a real estate agent to list the house, be prepared to wait the typical time it takes to sell a house, and pay your own selling costs.

Please consider my offer. I am willing to buy the house in its current condition and do all the work required to sell it to a non-investor. I believe it is a fair price for the house given its condition and your desire to sell quickly. I look forward to your reply.

Sincerely,

Jane Buyer  
President  
Jane Buys Houses  
555-1212

Figure 10-3 Sample Cover Letter

## The Five Components of Your Offer

1. Purchase Price
2. Earnest Money
3. Closing Costs
4. Closing Date
5. Acceptance Date

**Figure 10-4** The Five Components of Your Offer

## Ten Steps to Closing on a House

1. Set up escrow
2. Arrange inspections
3. Confirm improvement cost estimate
4. Order property survey
5. Request settlement statement
6. Prepare financing
7. Review title search report
8. Arrange property insurance
9. Prepare for improvements
10. Sign closing documents

**Figure 11-1** Ten Steps to Closing on a House

## The Five Components of a Construction Plan

1. Scope: What work needs to be done?
2. Specs: What materials are needed?
3. Budget: How much will the work cost?
4. Sequence: When to schedule the work?
5. Trades: Who does the work?

**Figure 12-1** The Five Components of a Construction Plan

## Typical Kitchen Tasks: Improvement Budget

Task	QTY	Material	Total Cost
Install faucet	1	Delta	\$135
Install tile backsplash	38 SQ FT	Tile	\$475
Install new laminate countertops	25 LF	Wilsonart, Mystique Mount	\$450
Install pendant lights	3	Candy apple red	\$270
Install gas range	1	GE, stainless	\$750
Install cabinet hardware	32	Brushed nickel, knobs	\$128
Plumb ice-maker line for ice-maker box	1	plastic, single lever, 1/4 turn valve	\$110
Install GFCI Outlets	3 EA	Leviton, ivory	\$90
Install new cabinets	24 LF	Stock, oak, 36"	\$3,000
Install tile floor	150 SQ FT	Tile	\$825
Install sink	1	Sterling	\$135

Figure 12-2 Typical Kitchen Tasks: Improvement Budget

## Step #32: Interior Doors, Trim, and Millwork: Trim Carpenter

Task	Material	Cost
Install Interior Door	30", left-handed, six-panel, hollow core	\$90 EA
Install Baseboards	1" x 6", paint grade, medium density fiberboard (MDF)	\$1.25 LF
Install Door Casing	1" x 4", paint grade, MDF	\$0.85 LF
Install Crown Molding	3 1/2" colonial cove	\$1.10 LF
Install Window Sills	1 x window sill stock	\$0.72 LF
Install Closet Shelves	Shelf stock	\$0.98 LF
Install Shoe Mold	Quarter round	\$0.24 LF

Figure 12-3 Step 32: Interior Doors, Trim, and Millwork: Trim Carpenter

## HomeFixers Fifty Steps to Rehabbing a House

	Step 1 House Secured	Step 2 Plans, Permits & Filings	Step 3 House Leveling & Foundation Repair	Step 4 Pest Control	Step 5 Temporary Requirements	Step 6 Plumbing Pre-Demo	Step 7 Electrical Pre-Demo	Step 8 Demo, Disposal, Site Prep	Step 9 Engineering Reports
Stage 1 Preconstruction	T: Locksmith	T: Architect, Designer, City/State	T: House Leveling & Foundation Repair Co.	T: Exterminator	T: Vendors	T: Plumber	T: Electrician	T: Demo Crew	T: Structural Engineer
	P: None	P: None	P: 2	P: I	P: I, 2	P: 5	P: 5	P: 6, 7	P: 8
Stage 2 Rough Structure	Step 10 Rough Soil Grading & Drainage	Step 11 Rough Plumbing Under House or Foundation	Step 12 Framing & Subfloor	Step 13 Roof Decking	Step 14 Exterior Doors	Step 15 Windows & Window Glass	Step 16 Sheathing, Moisture Protection, Siding	Step 17 Exterior Trim	Step 18 Roof
	T: Landscape Crew	T: Plumber	T: Framing Carpenter	T: Framing Carpenter	T: Framing Carpenter	T: Window Co., Framing Carpenter, Glass Contractor	T: Siding, Framing Carpenter	T: Framing Carpenter	T: Roofer
	P: 2, 3, 9	P: I, 2, 3	P: 9, 11	P: 12	P: 13	P: 12	P: 14, 15	P: 16	P: 17
Stage 3 Major Systems	Step 19 Fireplace	Step 20 HVAC	Step 21 Plumbing in Walls, Ceiling, Attic	Step 22 Bathtubs & Shower Pans	Step 23 Rough Electrical	Step 24 Exterior Masonry	Step 25 Batt Insulation	Step 26 Concrete Work	
	T: Fireplace Vendor	T: HVAC Specialist	T: Plumber	T: Plumber	T: Electrician	T: Mason	T: Merchant, Handyman, Insulation Co.	T: Concrete Vendor, Mason	
	P: 18	P: 19	P: 20	P: 21	P: 22	P: 23	P: 23	P: 24	

**Figure 12-4**

## HomeFixers Fifty Steps to Rehabbing a House

<b>Stage 4 Unfinished Surfaces</b>	Step 27 Drywall  T: Drywall Crew P: 25	Step 28 Garage Doors  T: Garage Door Co. P: 27	Step 29 Gutters  T: Gutter Co. P: 26	Step 30 Unfinished Wood Floors Installed  T: Hardwood Flooring Co. P: 27	Step 31 Cabinetry  T: Cabinet Merchant P: 30	Step 32 Interior Doors, Trim, Millwork  T: Trim Carpenter P: 31	Step 33 Dust, Sweep, Clean Before Paint  T: Make-Ready Crew P: 32		
<b>Stage 5 Finished Surfaces</b>	Step 34 Paint Interior & Exterior  T: Painter P: 33	Step 35 Blown Insulation  T: Insulation Contractor P: 27	Step 36 Countertops  T: Countertop Specialist P: 34	Step 37 Tile  T: Tile Setter P: 36	Step 38 Vinyl Floors  T: Flooring Co. P: 34	Step 39 Final HVAC  T: HVAC Contractor P: 34	Step 40 Final Plumbing  T: Plumber P: 36, 37, 38	Step 41 Final Electrical  T: Electrician P: 36	Step 42 Finish Wood Floors  T: Hardwood Floor Co. P: 39, 40, 41
<b>Stage 6 Final Details</b>	Step 43 Lockout  T: Trim Carpenter P: 42	Step 44 Mirrors & Shower Doors  T: Glass Contractor P: 40, 41	Step 45 Appliances  T: Builder's Appliance Co. P: 37, 38, 40, 41	Step 46 Carpet  T: Flooring Co. P: 42, 43, 44, 45	Step 47 Landscaping  T: Landscaping Crew P: 40, 41	Step 48 Final Cleaning & Make-ready  T: Make-Ready Crew P: 46	Step 49 Accessories & Decor  T: Decorating Companies & Merchants P: 48	Step 50 Punch  T: All Trades P: 48	

T = Trade

P = Prerequisite Step

**Figure 12-4** HomeFixers' Fifty Steps to Rehabbing a House

## Typical Kitchen Tasks: Construction Plan

Step	Task	QTY	Material	Cost	Trade
21. Plumbing in Walls, Ceiling, Attic	Plumb ice-maker line for ice-maker box	1	Plastic, single lever, 1/4 turn valve	\$110	Plumber
23. Rough Electrical	Install GFCI Outlets	3 EA	Leviton, ivory	\$90	Electrician
31. Cabinetry	Install new cabinets	24 LF	Stock, oak, 36"	\$3,000	Cabinet Co.
36. Countertops	Install new laminate countertops	25 LF	Wilsonart, Mystique Mount	\$450	Countertop Co.
37. Tile	Install tile backsplash	38 SQ FT	Tile	\$475	Tile Setter
37. Tile	Install tile floor	150 SQ FT	Tile	\$825	Tile Setter
40. Final Plumbing	Install sink	1	Sterling	\$135	Plumber
40. Final Plumbing	Install faucet	1	Delta	\$135	Plumber
41. Final Electrical	Install pendant lights	3	Candy apple red	\$270	Electrician
43. Lockout	Install cabinet hardware	32	Brushed nickel, knobs	\$128	Trim Carpenter
45. Appliances	Install gas range	1	GE, stainless	\$750	Appliance Co.

**Figure 12-5** Typical Kitchen Tasks: Construction Plan

## Three Ways to Get the Work Done

Who You Manage	Predictability	Cost	Personal Involvement
I. A General Contractor	High	High	Low
2. Specialized Trades	High	Medium	Medium
3. Individual Workers	Low	Low	High

Figure 13-1 Three Ways to Get the Work Done

## What a Good General Contractor Should Do

1. Manage the entire rehab project
2. Consult with you on your improvement plan
3. Collaborate with architects and designers
4. Draw up a comprehensive scope of work and material specifications
5. Create a budget and timetable
6. Pull permits and schedule inspections
7. Schedule, order, and make payments for all materials
8. Hire, schedule, and make payments for all trades
9. Ensure adherence to budget, schedule, and quality
10. Manage risk and solve problems that arise

Figure 13-2 What a Good General Contractor Should Do

## Specialized Trades

(In Order of Appearance)

1. Locksmith		8. Glass and Mirror Contractor		15. Sheetrock Crew		22. Paint Contractor	
2. Designer		9. Window Contractor		16. Garage Door Company		23. Laminate Countertop Company	
3. Exterminator		10. Roofer		17. Gutter Company		24. Granite Countertop Company	
4. Plumber		11. HVAC Specialist		18. Hardwood Floor Company		25. Tile Company	
5. Electrician		12. Mason		19. Cabinet Company		26. Flooring Company	
6. Demo and Cleanout Crew		13. Insulation Company		20. Trim, Door and Millwork Carpentry Company		27. Appliance Company	
7. Framing Carpenter		14. Concrete Company		21. Cleaning Company		28. Landscape Company	

 = Turnkey Trades

Figure 13-3 Specialized Trades

## **Using Rehab Intensity to Determine Who Should Manage the Work**

<b>Rehab Cost/SQ FT</b>	<b>Who You Manage</b>
More than \$20/SQ FT	General Contractor
\$5–\$20/SQ FT	Specialized Trades
Less than \$5/SQ FT	Individual Workers

**Figure 13-4** Using Rehab Intensity to Determine Who Should Manage the Work

# Two Steps to Hiring Contractors



**Figure 13-5** Two Steps to Hiring Contractors

## Good Sources When Networking for Contractors

### 1. Real estate investors

- Real estate investor clubs (meetings and email distribution lists)
- Your circle of real estate investors
- Private money lenders

### 2. Construction professionals

- General contractors and specialized trades
- Merchants, vendors, and supply-store workers
- Architects and interior designers

### 3. Real estate-related professionals

- Real estate agents
- Lenders specializing in construction loans
- Home inspectors

### 4. Friends, neighbors, relatives, and coworkers

**Figure 13-6** Good Sources When Networking for Contractors

## **Seven Factors to Consider When Qualifying Contractors**

- |                                      |  |
|--------------------------------------|--|
| 1. Longevity                         | How long has the contractor been in business?                      |
| 2. Licensed and Registered           | Does the contractor have the appropriate license and registration? |
| 3. Real Estate Investment Experience | Has the contractor worked on real estate investment projects?      |
| 4. Insurance                         | Is the contractor properly insured to protect you?                 |
| 5. Business References               | Does the contractor have good business relationships?              |
| 6. Customer References               | Does the contractor have satisfied customers?                      |
| 7. Competitively Priced              | Did the contractor provide a comprehensive and accurate bid?       |

**Figure 13-7** Seven Factors to Consider When Qualifying Contractors

## Fifteen Key Provisions of a Construction Contract

1. Basic Information
  - Contract date, start date, and substantial completion date
  - Your name, address, and phone numbers
  - Contractor's name, address, and phone numbers
  - Address of the job site
  - Contractor's license number or registration number
  - Contractor's tax ID or Social Security number
2. Scope of Work—Describes the project in detail (usually listed in an appendix to the contract).
3. Material Specifications—Details a complete list of materials that will be used (usually listed in an appendix).
4. Total Cost—Specifies the amount due, including material, labor, and management costs.
5. Proof of Insurance—Requires that the contractor maintain coverage and specifies policy numbers.
6. Not to Exceed—States that the contractor is not to exceed the cost for any of the listed tasks. Overruns must be paid for by the contractor.
7. Payment Schedule—Lists the total number of draws and dollar amounts of each that will be paid along the way (when and at which milestone).
8. Architectural Drawings and Plans—Provides copies of the originals (usually listed in an appendix).
9. Change Orders—States that you or your contractor has a right to make changes after the contract has been signed through separate, individual change-order contracts signed by both parties.
10. Compliance (zoning, permits, inspections)—States that the contractor is responsible for pulling permits and complying with state and local ordinances and codes.
11. Cleanup—Designates that the contractor will clean up each day and keep a neat job site.
12. Mechanics' Liens—Requires a general contractor to provide you with documented evidence that subcontractors have been paid for completed work. Alternatively, the contractor can provide a "release of lien" for the work performed by subcontractors.
13. Warranties—States what is covered and the length of time coverage applies.
14. Dispute Resolution—Specifies how unresolved disputes between you and the contractor will be resolved (e.g., arbitration, mediation, etc.).
15. Termination—Gives you the right to terminate the agreement for breach of contract (e.g., due to poor workmanship, failure to meet the contract requirements) or for bankruptcy or insolvency.

Figure 13-8 Fifteen Key Provisions of a Construction Contract

# The Three Main Project Management Goals

1. Stay on Schedule
2. Stay on Budget
3. Ensure Quality

**Figure 14-1** The Three Main Project Management Goals

# The Three Keys to Effective Scheduling

1. Sequence      The order in which work gets done
2. Lead Time      The time it takes to start work
3. Duration      The time it takes to complete work

**Figure 14-2** The Three Keys to Effective Scheduling

## When to Start Step 40

<input checked="" type="checkbox"/> Step 36 Countertops	<input checked="" type="checkbox"/> Step 37 Tile	<input checked="" type="checkbox"/> Step 38 Vinyl Floors	Step 39 Final HVAC	Step 40 Final Plumbing
T: Countertop Specialist	T: Tile Setter	T: Flooring Co.	T: HVAC Contractor	T: Plumber
P: 34	P: 36	P: 34	P: 34	P: 36, 37, 38

Figure 14-3 When to Start Step 40

## Stage 5: Timeline for Finished Surfaces

Steps	Week 4							Week 5							Week 6						
	Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa	Su	M	T	W	Th	F	Sa
Step 34—Paint Interior & Exterior																					
Step 35—Blown Insulation																					
Step 36—Countertops																					
Step 37—Tile																					
Step 38—Vinyl Floors																					
Step 39—Final HVAC																					
Step 40—Final Plumbing																					
Step 41—Final Electrical																					
Step 42—Finish Wood Floors																					

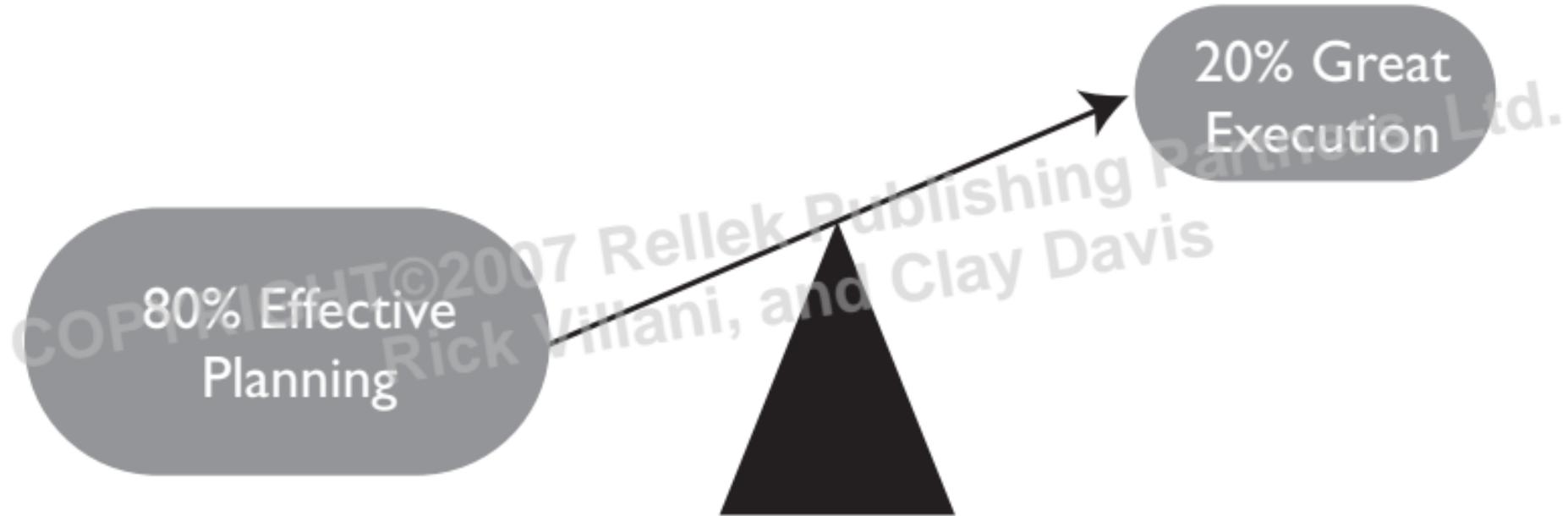
Figure 14-4 Stage 5: Timeline for Finished Surfaces

## The Three Factors That Affect Lead Time

1. Material Availability	Some materials must be ordered in advance.
2. Labor Availability	Some crews are often backlogged and need advance notice.
3. Paperwork and Processing Time	Some tasks require paperwork, such as permits, to be in place.

**Figure 14-5** The Three Factors That Affect Lead Time

# The Keys to Staying On Budget



**Figure 14-6** The Keys to Staying on Budget

## The Process of Developing an Improvement Budget

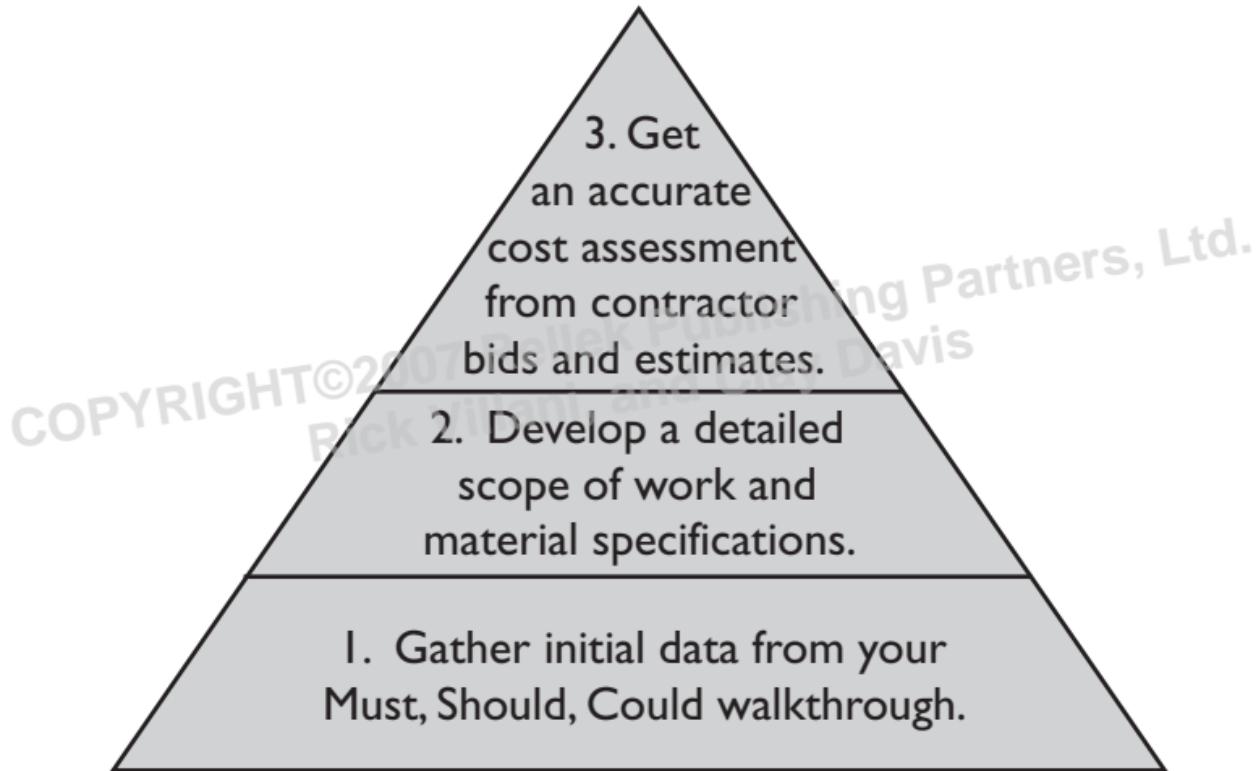


Figure 14-7 The Process of Developing an Improvement Budget

## Why a Detailed Scope and Specs Get You the Best Bids

1. Shows the trades that you completely understand the work to be done.
2. Eliminates ambiguity.
3. Eliminates trades taking liberties with what should be done.
4. Provides for apples-to-apples comparisons among several bids.

**Figure 14-8** Why a Detailed Scope and Specs Get You the Best Bids

## **Execute to Stay on Budget**

1. Manage Rough Work
2. Manage Labor
3. Manage Scope
4. Monitor Spending

**Figure 14-9 Execute to Stay on Budget**

## Quality Assurance Checklist: Tiling a Kitchen Backsplash

- ✓ Countertops must be masked prior to tile work to prevent scratching the countertops.
- ✓ Outlets and switches must be unscrewed and pulled away from the wall so that they are not “tiled or grouted in.”
- ✓ Tile must be cut outside the house to prevent covering the interior with tile dust.
- ✓ Tile should be laid according to design specs, such as straight, at a 45-degree angle or in a specified pattern.
- ✓ Tile must be laid perfectly straight and spacers should be used to ensure grout lines are perfectly even.
- ✓ The grout must be checked to ensure there are no missing or unfilled areas.
- ✓ Faceplates should be held up to all outlets and switches to ensure that there are no gaps in the tile or grout around them.
- ✓ Grout must be thoroughly wiped off the tile before it dries.
- ✓ All scraps should be removed from the premises (inside and out) once the job is completed.
- ✓ Excess mortar and grout should never be left on the premises and there should be no mortar or grout residue left on grass, plants, hoses, etc.
- ✓ There should be no evidence anywhere on the job site (inside or outside) that a tile job was ever done except for the tile work that was performed.

Figure 14-10 Quality Assurance Checklist: Tiling a Kitchen Backsplash

## Six Tips to Ensure Quality

1. Link payment with performance. Communicate that quality is checked before payment is authorized. Consider putting a bonus structure in place for consistent, exceptional work over multiple projects.
2. Monitor and measure progress often. As the saying goes, “inspect what you expect” to ensure that your expectations are being met along the way.
3. Address problems immediately. Quickly raise the red flag if you notice errors, especially if they cannot be fixed later in the process or would be cost or time prohibitive if not addressed right away.
4. Prepare for the work. Just like staying on schedule and on budget, a quality outcome is ensured by a house that is properly prepped and ready for the trades to start work:
  - ✓ Work is clearly defined
  - ✓ Job site is clean
  - ✓ Prerequisite steps are completed
  - ✓ All of the needed materials are on site (trades should work not shop)
5. Manage the rough spots. Intensify your focus on the rough work or work that serves as the foundation for future work.
6. Pay for predictability. Cheaper isn’t always better. When applicable, don’t hesitate to use turnkey trades who will guarantee a good job. Use materials that have a tried and true track record of looking good and being installed easily.

Figure 14-11 Six Tips to Ensure Quality

# Preparing to Sell

1. Decide Who Will Handle the Sale—You or Your Agent
2. Set the Selling Price
3. Stage the House Based on its Design Level

**Figure 15-1** Preparing to Sell

# **Two Ways to Sell an Investment House**

- I. Hire a Real Estate Agent**
- 2. Sell the House Yourself (For Sale By Owner)**

**Figure 15-2** Two Ways to Sell an Investment House

# **Key Points of the Listing Agreement**

- 1. Commissions**
- 2. Term**
- 3. Agent Bonuses**

**Figure 15-3** Key Points of the Listing Agreement

## The Six Considerations of an Offer

1. Letter from Lender
2. Quick Inspection Period
3. Not Contingent on the Sale of Another House
4. Short Closing Period
5. Reasonable Down Payment
6. Reasonable Earnest Money

**Figure 16-1** The Six Considerations of an Offer

## **Five Steps to Closing on the Sale of a House**

1. Show a permit paper trail
2. Respond to repair requests
3. Provide a survey
4. Purchase title insurance
5. Request a settlement statement

**Figure 16-2** Five Steps to Closing on the Sale of a House

## Tax Scenarios for a \$50,000 Profit

Scenario	Tax on \$50,000 Profit	Explanation
Flipped in Less than 1 Year	\$10,000–\$15,000	Varies based on other income and deductions
Flipped in More than 1 Year, but didn't live in it	\$7,500	15% of profit
Lived in the House for 2 Years	\$0	Exempt from taxes since profit less than \$250,000 (\$500,000 if married)

Figure 16-3 Tax Scenarios for a \$50,000 Profit

## Strategies for Flipping in Different Market Conditions

	Buyer's Market	Seller's Market
Find	Easier than seller's market. MLS and foreclosure markets can be good strategies.	Often difficult. Find houses before they are publicly for sale. Scouting for vacant properties and mailers to neighborhoods can be effective.
Analyze	Consider extra holding time and further softening of the market when estimating the selling price.	The house may appreciate, but never count on it when estimating the eventual selling price.
Buy	Often room for price negotiations.	Resist the urge to exceed your maximum offer.
Fix	Make the house stand out in the crowd.	Stay in the neighborhood norm.
Sell	Challenging. Good price, staging, and marketing are musts.	Easier than buyer's market. Consider listing before it's even finished.

Figure 17-1 Strategies for Flipping in Different Market Conditions