

Notes for Wholesalers

What Not to Say as a Wholesaler to a Competent Investor

Edited from my post on the SJI listserv on June 7, 2010

Bonus #1

A list of some of the classic mistakes made by new wholesalers is shown at the end

Bonus #2

Marc's buying criteria shown at the end

Make money by selling me a property that I want. I want YOU to make money off me!

I got a call from a new "wholesaler" this morning and I feel compelled to share this conversation of incompetence on the listserv. An aspiring wholesaler would benefit from reading this by learning what to avoid that could destroy his/her reputation in minutes. I will not give any information that will allow anyone to identify the individual and in fact, I don't know his name myself (he told me his name at the beginning of the conversation but I didn't catch what he said).

This well-meaning new investor tried to sell me a deal with no clue what he was doing and he got an education.

If you are a newbie and a wannabee wholesaler, read this before you ever contact me to buy your deal. If it's a good deal, I definitely do want you to call me since I am a qualified and serious buyer with the ability and will to buy. If you read this, you will learn a few of the mistakes to avoid when you call me.

Classic Mistake: Grossly Overestimating ARV or Not Knowing ARV

First, the "wholesaler" (I use the term very loosely) had no clue what the ARV was. When I asked him about after repair value (I had to spell it out), he responded "**\$X is the highest comp.**" (I am not disclosing the number). I wasn't sure that I heard him right since I couldn't believe that anyone would give such a response.

I told him that if he was going to attempt to sell the house to me, he needed to know the ARV and justify the number. He said he got a realtor to give him a few comps (couldn't tell me if they were the same house characteristics, location radius or even house style!) and simply said that \$X was the highest. So I followed up and asked if he knew the range of price at which it really may sell. He had no clue.

I told him that if he doesn't know how much it would sell for after repair, how could he possibly make an offer himself?

Classic Mistake: Not Using the Right Contract

At that point I asked him if he had the property under a contract for purchase or if he used an option agreement. I explained the difference to make sure he could answer my question. I further explained that if he had a full contract for purchase (without a proper escape clause) instead of an option, he couldn't walk away and therefore he would have to know his numbers were very good, since he would have to live with the numbers and buy the house himself. He responded that he had a "contract for purchase." So, again I asked him for the ARV he used to calculate his maximum allowable offer and he didn't answer other than reverting back to the \$X as the highest comp.

I obviously wasn't making any progress to get an ARV using this line of questioning and I probably should have hung up and stopped wasting my time. However, one never knows if there is a deal there, even from an incompetent "investor" so I continued the follow up. I then asked him if he was prepared to buy the house if he didn't find a seller. He then said that if he couldn't find a buyer then the house would revert back to the seller. I asked him again if his contract was an option and he was confused. As far as I could tell, this was indeed an option.

Classic Mistake: Not Knowing Enough about the Property

I still needed to know if the house has a shot of meeting my buying criteria. It turns out that he had no clue about the age of the house or the house style when I asked. I then asked if it was more than 50 years old since I buy houses up to about 45-50 years old. He said it might be under 50. He then said that the property was listed on MLS, so I looked it up on MLS while we were on the phone and it was 81 years old. Imagine that, he was telling me about a property listed on MLS that he had under option (or possibly a purchase contract with an escape clause) and then **he called me to wholesale the house without the listing in front of him and not knowing the house parameters!**

Classic Mistake: Grossly Underestimating Repairs or Not Having a Repair Estimate

He said the repairs were about \$9K-\$15K. This is a very low number for an 81 year old house, unless it was recently rehabbed, but if it was, it probably wouldn't be a wholesale deal to an investor-buyer. So, I asked if the \$9K-15K included a kitchen for example. He said the kitchen was OK but may use some updating. I asked if the kitchen was included in the \$9K-\$15K. He simply responded that he had quotes from 2 contractors. I asked about the scope of work and he said he wasn't the one who determined that. **I asked him how he could know the repair estimate if he didn't know the scope of work. No answer.**

I asked him if the kitchen did need replacing, how much would he have budgeted. A wholesaler needs to know how much a kitchen costs depending on size, cabinet grade/quality for the neighborhood, appliances. etc.. He said \$1,500. I asked him where he got that number from. He said from a course he bought 5 years ago. I asked what that included and if the numbers were valid today in South Jersey? He simply quoted his spreadsheet. I asked him when was the last time he bought a kitchen. He never bought one. I told him that I recently purchased low end contractor grade cabinets for a medium size kitchen for a \$160K house (not high end) for \$2,120.+ tax and that did not include installation, countertop or appliances.

Classic Mistake: Totally Ignoring Investor-Buyer Costs for Buying, Holding, Financing & Selling

I asked him if he included the investor-buyer's buying costs, holding costs and selling costs in determining his price. He did not. I told him that these costs would be about \$15K for this house.

MAO Calculation

I went through the ballpark numbers using an ARV somewhat lower than \$X (the highest comp available!), a repair cost of \$20K, buy/hold/sell costs of \$15K and showed him that there was probably negligible profit in the deal for an investor-buyer. I told him that a competent investor like me would never buy such a deal as described and that I would not waste my time doing due diligence with such an inadequate set of information. I said that an incompetent investor might buy the deal from him and lose money. Either way, his credibility would be tarnished.

I'm glad that I didn't catch his name or ask for it later in the conversation. In this way, I won't be biased against him if he one day gets a proper education about wholesaling. I did recommend

that he get a proper education about wholesaling and I endorsed someone to teach him that since we do not coach wannabee wholesalers from scratch for ethical reasons.

Myth: You Don't Need Credit, Cash or Experience to Start Out as a Wholesaler

It is rare that people without knowledge in real estate investing and no knowledge about repairs or determining ARV can take some course for \$997 and go out and be a successful wholesaler. We do teach wholesaling in our book and home study course but we do warn against this for newbies in both the book and home study course, since our training would be incomplete if we simply extolled the praises of any investment strategy without being honest about the barriers that are likely to cause failure, especially for newbies.

I could have simply chosen to terminate the absurd conversation in the first 5 minutes once I realized that the wannabee wholesaler had no clue what he was doing. Instead I invested 30 minutes giving him an idea of what he needs to know to present a wholesale deal to an investor.

There are a few good/competent wholesalers in South Jersey, but not many. Only a minority of them read the SJI listserv, though a few post deals on the listserv.

I will not give up on wholesalers in South Jersey and I have bought from wholesalers in South Jersey. But it is getting more and more laborious to deal with people who don't know what they are talking about after taking a course that tells them they will get rich by wholesaling if they have no money and bad credit.

I am not telling anyone not to buy a course on wholesaling. But if you do, be realistic about it. If you already know about real estate investing in general, then wholesaling may be a good way to supplement your income or graduate into it as a full-time investor.

It's a free country and anyone can try to do anything that is not illegal or unethical, but newbies (such as the person who called me today) would do themselves a big favor if they thought through what it really takes to be a successful wholesaler. Can it be done? Yes. What is the probability of success for an absolute beginner in real estate investing? Low.

Marc Halpern

Epilogue

It turns out that later that month, a highly competent wholesaler found a property that met my criteria and I closed on it shortly thereafter. I did a significant rehab and I leased optioned in record time (within a few days!) in the middle of a buyer's market! It wouldn't have sold as a buy-fix-sell in this market with significant profit. The highly competent wholesaler understood all of my potential investment strategies for this particular property and he knew that I could make this work as a lease-option.

The wholesaler made \$7,000 for his assignment fee for just a few hours of "work." In this case I brought all the financing and the wholesaler was paid at closing with full reporting on the HUD-1.

The moral of the story is that competent investors like me want to buy from competent wholesalers and competent wholesalers absolutely want to sell to me and make money. I love it when wholesalers make money off me. I want to have a win-win relationship with all wholesalers in South Jersey, but you have to know what you are doing.

So, ask yourself, are you a competent wholesaler or do you have a lot yet to learn to now adequately deal with ready, able and willing investors? If you are the former, please show me your deals. If you are the latter, go out and get the experience and expertise you need and I'll be glad to buy from you.

Some of the Biggest Crucial Mistakes Made by New Wholesalers from the Viewpoint of the C-Buyer

- ☐ GROSSLY Overestimating ARV – this is the biggest mistake
- ☐ GROSSLY Underestimated repairs – this is the second biggest mistake
- ☐ Totally ignoring the buying-holding-financing-selling costs of the investor-buyer when determining their own MAO – this is the third biggest mistake
- ☐ Funding illiteracy (not addressed above)
- ☐ Contract illiteracy
- ☐ Lack of understanding of the major investment strategies used by investor-buyers (not addressed above)
- ☐ Not understanding that a buyer's list may not contain a single buyer who both wants and is able to buy on that day (not addressed above) – this is the fourth biggest mistake
- ☐ Asking the investor-buyer to pay the wholesale fee off the HUD-1 (not addressed above)

**Attend my November 8 presentation and
learn the other mistakes and how to avoid them**

Next Phase Homes is looking in Gloucester and Camden Counties for single family homes with ARV's in the range of \$150-250K, preferably \$170K-\$200K. I have a very strong preference for homes in well-defined subdivisions that are 0-50 years old, preferably 15-40 years old. 2-story colonials and bilevels are most preferable, though ranches and capes are OK at the lower end of the price range. Townhouses must be no more than 25 years old...good example is Fox Hollow in Williamstown. No brick structures (brick exterior OK, just not the brick as basic structure).

Important Notes on Purchase Price, Repair Estimate, ARV Estimate and Wholesaler Credibility: The purchase price to Next Phase Homes should be 30-60% of ARV depending on rehab needed. I prefer rehabs in the range of \$0-\$50K, preferably \$10K-\$40K, more preferably \$20K-\$30K. I would consider higher cost rehabs for a really great deal.

[Note to wholesalers: A wholesaler loses credibility with me very fast, and sometimes immediately, if the repairs are grossly underestimated. So think carefully before giving me a range of what you think the repairs may be. In addition, I have access to MLS and other methods of determining ARV. A wholesaler loses credibility with me very fast, and sometimes immediately, if the ARV is grossly overestimated. If you are a wholesaler and propose a property to me, please provide your range for estimated repairs and range for estimated ARV.]

[Note to Wholesalers: Strong preference for Subject To or other owner financing and I'm willing to consider lower margins with these financings.]

Underground oil tanks may be OK, even if they are known to leak, BUT a wholesaler's contract MUST include certain clauses or I will not consider any underground oil tank. Strong preference for gas heat with no history of oil heat whether in basement or underground.

Strong preference for garage, though not essential if entire subdivision doesn't have them (like in much of Bellmawr). MUST have off-street parking no matter what.

No Gloucester City. No Camden. Some Winslow subdivisions may be OK if very low enough price and no oil currently and EPA certification (e.g., Drexel Gate, Eden Hollow, Avandale West are OK; Manor Hall, Lehigh Manor, Brittany Woods not OK).

Remember that the investor typically has another \$15K-\$20K of costs on top of the purchase price and rehab costs. These include selling commission, cost of money, other holding costs, title insurance, vacant dwelling insurance and more. Wholesalers should avoid assuming that the investor-buyer's profit is ARV minus purchase price minus rehab cost!!

Examples of acceptable deals:

20-year old 2-story 3 BR 2 bath colonial with at least 1600 sqft and ARV of \$200K with \$20K repairs, purchase price no greater than \$120K

40-year old 3 BR 1.5 bath ranch with at least 1300 sqft (preferably 1500 sqft) and ARV of \$160K in Somerdale with \$20K in repairs, purchase price no greater than \$90K.

35-year old 4 BR bilevel in Williamstown with ARV of \$180K with \$20K in repairs, purchase price no greater than \$100K.

A 2 BR ranch with basement that could be converted to a 3 BR by putting in a scapewell.

Best idea is to tell me what you have and I'll let you know how I feel about each one. My guidelines are not absolute. They just reflect my comfort zones.

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Homework:

What are the top three things I can do to be a better wholesaler to competent, able and willing investor-buyers like Marc Halpern?

1. _____

2. _____

3. _____

Notes:
