Doing Real Estate Right

Making Big Money Close to Home In Good Markets or Bad

Richard Kelly

(There are) No Stupid Questions

 You can't ask anything too stupid – I've asked or wanted to ask every dumb question (including "what's equity?").

 One of the things I love about real estate is that there's so much to learn ...

Who am I?

- Journalist for 12 years, got tired of not making money.
- Sales for 3 years ... selling something I didn't believe in.
- Stumbled on Robert Allen ad in Chronicle get rich in Real Estate
- Basically, like everyone else who decides to become a real estate investor

Who am I?

Loved the class – started full time immediately:
 March 17, 2005

 Had some money as savings – enough to live and take courses – had <u>NO</u> money for investing

Why Creative Real Estate?

*Had no access to bank funds since I was "unemployed" (lucky for me).

Listened to a lot of speakers and decided early on I wanted to deal with real people, not banks or institutions

Early Daze

*Tried investing in other states but wanted too much control, felt too exposed.

Decided there was no reason, if the object was to buy at a discount, I couldn't do it from home.

Figured got to be as hard to find a deal 30% off in Mississippi or Dallas as Bay Area ...

Early Daze

Proceeded to <u>not</u> make an offer for six months

 Came to specialize in creative real estate honestly – I had no choice.

And really, no clue.

Opportunities

- How can it be done?
- REOs, MLS (mispriced), short sales, unseen market (neglected houses you track down the owners, FSBOs (for sale by owner), Direct purchase from seller, probably more ...

Early Daze

 Started with many different marketing methods: advertisements, mailers, door hangers, door knocking, Bandit Signs, postcards ... you name it.

• First deal January 2006 – after 10 months in the business. Lead came from a letter.

What do I do?

 (Practically) No agents, No MLS properties, minimal risk, high profit, close to home (30 minute drive), I don't even have a website.

 My real job is arbitrage: profiting from imperfect markets, being the first make offer in writing and create a deal.

How it works

• If it's complicated, it pretty much won't work for me.

• I write letters to people and tell them I'm interested in buying their house, and I talk to people in neighborhoods

We talk if they call me ...

How it works

- I receive warm calls ...
- But ... also, expect calls from angry people, who demand to be removed from the mailing list
- Calls from tire-kickers who aren't really interested in selling
- Calls from people who have re-financed and their house isn't worth the value of the loan

Opportunities

Buuuut : also be ready for the special calls ...

• When person owns it free and clear, it's a mess and burden to them, there are difficult circumstances and they want to sell, <u>now</u>

My Sellers

- Start to recognize real prospects on the phone.
- If they give me a hard time, they' re a bad prospect.
- Never done a deal with anyone who told me their debt is none of my business.
- Talk ... develop rapport, get info

My Sellers

- But you never know who will sell.
- Meet the seller, find out what they want and why ...
- Make an offer that will suit the situation

Letters

- The letter is basically **4** parts:
- Introduce myself and say I'm looking to buy something near their property
- I'll buy "as is" (with tenants or vacant) without commissions or fees
- If they're not interested now, suggest my number in case want to sell later
- I give my cell# to reach me.

Big tip ...

17

MAKE AN OFFER!!!

• Big secret to this business: make offers, lots of them.

If a job is worth doing it's worth doing badly

- "You miss 100% of the shots you don't take."
 - Wayne Gretzky

What will make you money

 Quit worrying about making a mistake. You can fix a mistake.

• Can always get out of a bad contract at worst you lose your deposit ... so make the offer!

How I buy

• If you're not a little embarrassed, the price is too high

• Don't worry about ticking people off ... just think to self: "If they say yes, will I be happy?"

How I do it

- 1) Conversation (develop real rapport and take offramps!)
- 2) Drive the property
- 3) Write up offer (2 pages Page 1 tells them what I found when I looked at comps, and the advantages of working with me
- 4) My offer: 3 options

My Sellers

30 minute drive from my house

Lots of equity ... usually 100%

If they want to make a deal they can

Deals

Never steal in slow motion!

What I buy

Neighborhood matters ... a little

There's a price for everything

 Just make sure you can get out of it ... make sure there's lots of room

What works

- Cheap works (30% under actual, conservative market value)
- Unrealized value works
- Terms work
- Relationships work
- Cooperative sellers work

What I need

MLS access – get it.

TValue

Tenacity (or at least be okay with "No" or worse)

Buying Criteria

 There is a price to make a profit for everything in any market ...

Buying Criteria

• How do I buy?

• 30 % off (low stress!)

• In a declining market works for a flip (I made money all through the big fall ...)

 In a bottomed out market it's great for a flip or keeper, in rising market can flip or keep, too

Buying Criteria

- I'm <u>not</u> looking for properties that are mispriced
- I'm looking for sellers who are motivated and making an offer that makes sense to me. If it doesn't make sense for them, fine.
- If it does, it's a beautiful thing ...Great thing about capitalism: we don't make a deal unless we both move to a better place.

Flip or Keep

- My rule: Flip unless it will pay for itself, then, depending on the deal, I'll consider keeping.
- I like are solidly working class neighborhoods or better.

• Keep: Where people take care of their houses; neighbors are friendly and don't complain about the crime. They don't have bars on their windows and don't have fences around the front yards.

1% Rule

 My conservative, simple rule of thumb to determine if a property will cash flow:

• 1% rule ... if the rent is 1% or more than the purchase price, it will generally cash flow.

Keeping

 But lots of benefits unseen: depreciation deductions, interest deduction, principal paydown

And over time tenant buys my house for me ...

Offers

• Everyone who calls with a free-and-clear house gets an offer ...

Even if they don't seem like a good prospect.

• I'm not smart enough to know in advance if I can put together a deal with someone.

Offers

• Buuuuut, if they seem like a great prospect, I'll drop everything and have a look and send an offer right away.

• I know enough to tell what a great prospect sounds like ...

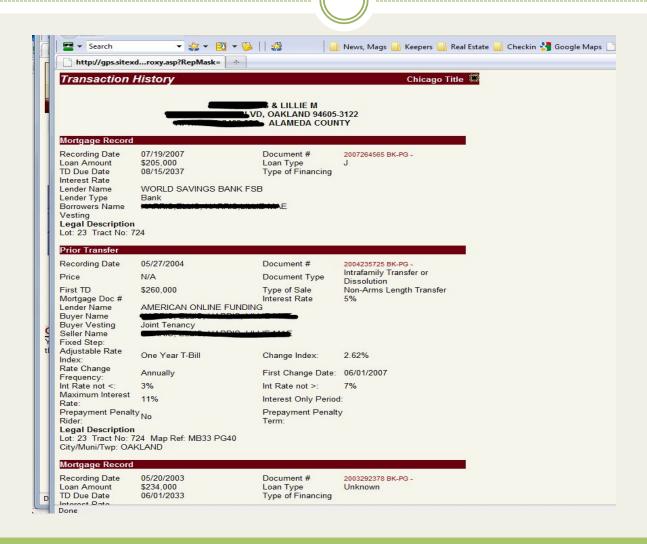
Farms and Escrow

- ▼It all starts with either the Title company or paid service like RealQuest
- Want a list of names and addresses that fit a specific profile
- ➤ For me: owners (usually landlords) who've owned property at least 14 years (I'm looking for equity)
- ▼I also want access to Property Profiles

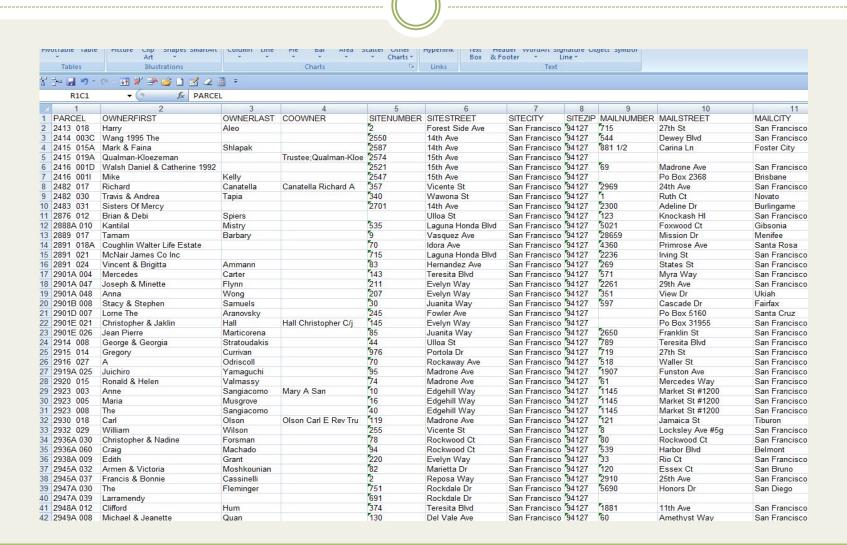
Property profile, no loan



Property Profile, lots of loans



Sample Farm



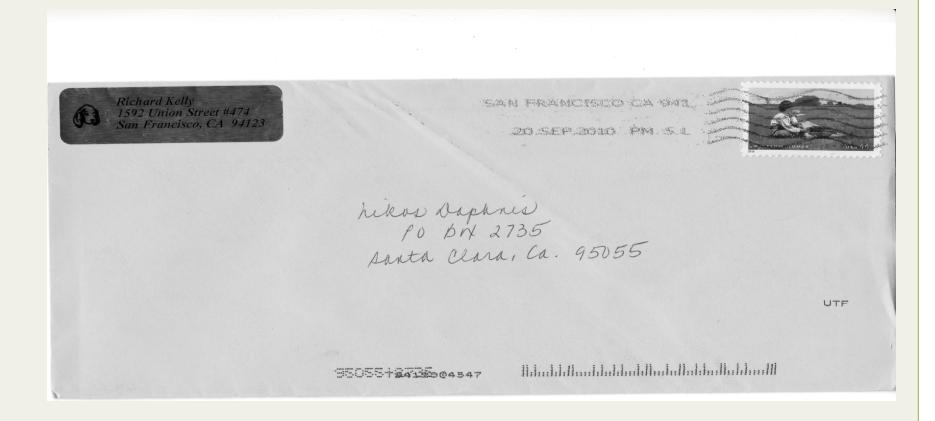
Letters

 Send Word file to my assistant which she prints, signs and addresses by hand.

 Cost for labor & materials: ~35c / letter, not including stamp and return label

 Total cost: ~8oc-\$1/ letter; I send 400-800 a week.

Letter



Letters

• Remember:

• EVEN if you don't actually have cash - If you get the right price, cash will come

Handling Calls

- ×How can I help?
- **▼**Why would you want to sell?
- ×Tell me about the house ...
- Never argue with them or debate value ... but will often check on Zillow while we're talking.
- xIf firm − "would you be open to carrying back a note?"

Handling Calls

➤ How much do you owe? (Critical question – both for the answer and <u>how</u> it's answered)

x If it sounds interesting, especially if no debt, I'll go see it and make an offer in writing.

Repair

- × Rehab
- ➤ My suggestion: go to lots of open houses for fixers, see if you can bring along someone who knows something about repairs, contractor, investor, even an experienced agent can give you an idea about prices.
- **▼** Follow your inspector when he does your inspection.
- × You'll start to have a good idea ... then add some.

Valuation

One of the most important parts of investment.

• Few people are good at it – especially appraisers!

• Be conservative.

Valuation

•So, what's the Value?

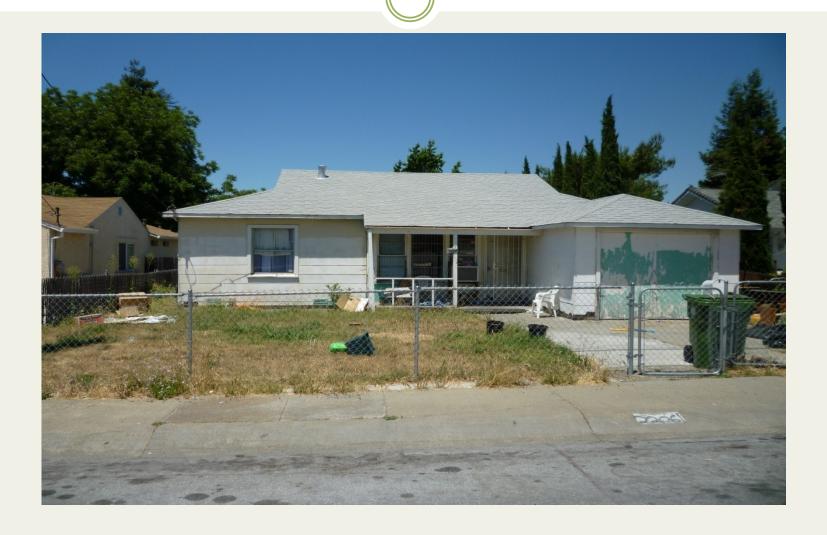
• Real MLS access is best

•Want to show what's sold AND what's sitting

Example: 22061 Young Ave, CV

- 3/1, 988 sq ft, 5720 lot, Blt: 1948
- o 15 MLS properties w/i 0.2 mi, 9 sold,
- Ocyberhomes: \$314k, Zillow: \$322k;
- o Rent: \$1500
- OARV estimate: \$320,000
- o Repair estimate: \$60,000

22061 Young



My Offers

Letter of Intent, offers on paper

1) 1 Cash

2) 100 months to 12 years

3) 15 years

Cover Letter

4 Parts:

- Pleasure to chat, attached find my offers
- In past 9 mos, 14 properties on market within 1/5 of a mile. Only 2 have sold*.
- Examples include:
- Offer is net no fixups, commissions, fees, and don't have to wait!

Offer Cover Letter

Richard Kelly XXX Union St. #474 San Francisco, CA 94123 Cell: 415.341.6087 rk.griffinbranch@gmail.com

November 10, 2009

XXX XXX XXX Goodfair Dr XXX, CA 94564

Dear Francisco,

Pleasure to chat with you last week. As promised, attached please find three offers for your property at XX XXX Drive: one is for all cash and the others, for higher prices, are for cash upfront, ongoing monthly payments, and a final lump-sum payment.

I have reviewed comparables within the past 9 months and found that there have been 14 similar properties listed for sale within 1/3 of a mile from your property. **Only 2 have sold**.

Examples of recent comparables include: 840 Patrick., 4 Bdmn 2 Bathroom (4/2), 1167 sq ft (yours is 3/2, 1,405 sq ft), is pending with a list price of \$ 215,000 – it is in excellent shape and has a re-modeled kitchen with granite countertops; 1316 Hazet, 3/1 is a fixer at 1,666 sqft, with a huge lot (15,000 sq ft) and is pending at \$139,000; and 1272 Belfair (3/2) sold in April for \$270,000 and had dual-pane windows throughout.

My goal with every property owner is to net you about the same amount as if the property were sold it through a realtor. Unlike with a realtor you will not have to wait for your money – which for can take many months in this market. Also, the price I offer is net – there are **no deductions** for **commissions**, fix-ups, or **other concessions**. You incur no marketing, appraisal or surveying costs, and I pay for all escrow fees, and title insurance. Please feel free to contact me, and we can put together an agreement in a timeframe that suits you.

Warmly

RIdianal

- Pleasure to talk
- I've reviewed comps for past X months
- 3 examples
- Repeat advantages of working with me: speed, simplicity, ease, no deductions for commission, fees, fix-ups

3 Options

The purpose of this letter of intent ("Letter") is to outline certain of the terms and conditions of a proposed purchase (the "Acquisition") by ("Buyer", below), of the real property located at <u>22061 Young Ave, Castro Valley, CA</u> currently owned by the ("Seller"). It is anticipated that the acquisition will be consummated as soon as possible, on a date no later than 30 days after your acceptance of this Letter on such date as the parties hereto may agree (the "Closing Date").

Terms of Acquisition.

Note all offers subject to satisfactory review of income and expenses of property, including terms of existing note (if any); buyer approval of inspection report. Inspection to be at buyer's expense.

Offer 1: Cash + Purchase Money Note: \$ 302,450

As follows:

- Cash at close: \$ 18,000
- 15 (fifteen) -year note for balance, secured by 1st Deed of Trust.
- -Terms: Yrs 1-5 \$ 725 /month; Years 6-10 \$ 825/mo; Years 11-15 \$ 950/mo.
- Lump sum due at conclusion of 15th year: \$134,450

-Or-

Offer 2: Cash + Purchase Money Note: \$ 252,650

As follows:

- Cash at close: \$ 15,000
- 100 Months; \$800/month, plus lump sum with 100th payment of \$157,650
- Note secured by 1st Deed of Trust

-Or-

Offer 3: All Cash: \$ 162,850

Offers are considered valid and actionable. Offers to expire if not accepted before: <u>May 27, 2010</u>. Upon acceptance, formal Purchase Agreement will be tendered.

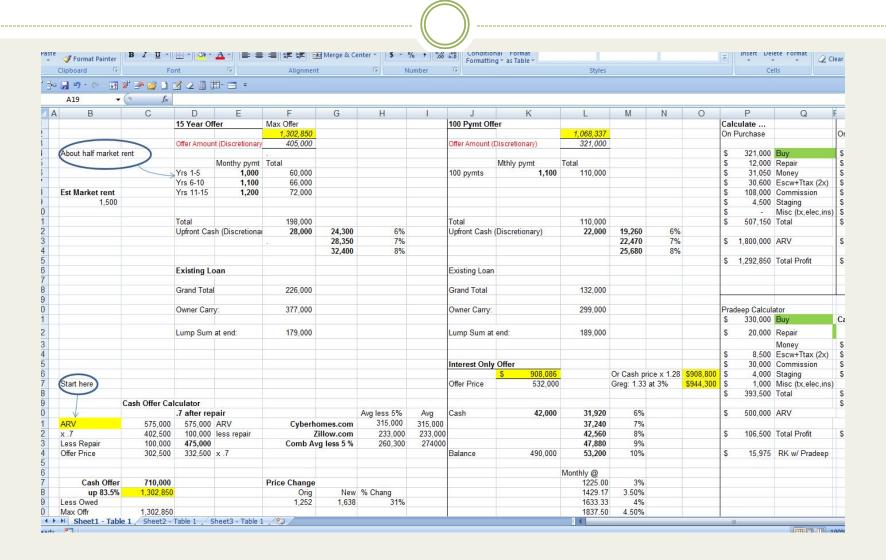
- 1) Cash + Purchase Money Note:
- \$ 302,450
- As follows: Cash at close: \$ 18,000
 - 15 yr note for balance, secured by DoT.
 - Terms: Yrs 1-5 \$ 725 /month; Years
 - 6-10 \$825/mo; Years 11-15 \$950/mo.
 - Lump sum at end of 15th yr: \$ 134,450
- 2) Cash + Purchase Money Note:
- \$ 211,**5**00
- As follows: Cash: \$15,000
 12 yrs, 4% on balance or more, \$538.33
 Lump sum for balance due after 12 yrs
- Offer 3: All Cash: \$ 162,850

My Offers

Present Value is a check for all my offers

 Want to make sure all offers are worth about the same amount in today's dollars

My Offers



Process

Wait about a week

Call back (they never call)

"No" is a starting point

Offer

- OARV was \$320,000
- My repair estimate from drive by: \$60,000
- O So ...
- o Cash offer: \$320,000 x .7 = \$224,000
- o Less repair: \$224,000 \$60,000
- Offer price: \$162,000

22061 Young (Completion)



Negotiation

- O About 50% of time when I strike a deal, it's pretty clear ... they'll start with "I like Offer #3, but ..." and we negotiate the final deal.
- O About 25% of the time, there's no negotiation, they say "I'll go with the Cash Offer" and I say, "Sounds good. What's your availability?"
- o 25% of the time the answer is "No" and I turn it into "Yes" or we sign down the road

Negotiation

• Ask questions, find out what they want - see if you can make the deal based on the things that are important to them.

• Keep talking!

Negotiation

- Best paying job there is
- Are we close on any of them?
- How can we make it work what's important to you?

Deals

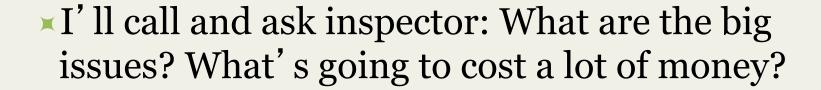
- Typically inspection period is 17 days or so
- I have a simple clause in my Agreement that allows me to withdraw anytime before close

O And another clause that allows me extend the closing an additional 20 days with an additional \$500 to escrow.

Inspections

- Inspections: are a gold mine!
 - ▼ If you' re going to assign (wholesale) the property you look more professional and expedite the sale
 - ➤ Can go back to the seller and ask for a little "help" on the on the price because of the extent repairs.
 - × Best I' ve done?

Inspection



▼I'll walk through all the major sections with him to jog his memory. Takes 15 mins ...

➤ Basically saying: I know there's a ton of CYA stuff in here but what's the skinny?

Contractors

- **▼**Get multiple bids on your property
- x I'd like to use the same contractor every time, but often they're busy when your want them so you need a stable of them
- Also: they get complacent if they think you're going to use them every time.

Rehab

 Check that your contractor has insurance – both liability and Workman's Comp, request to be added to his policy "additionally insured".

 Make sure the insurance is in place and effective <u>before</u> he starts_your project (I ask for the documentation <u>and</u> I call the agent).

Private Financing

- Ever since I had big problems financing \$120,000 on a property appraised at \$341,000 ... decided banks were too stupid to work with.
- In other words, I decided to get serious about private financing

The money is out there.

Private Financing

- × I just started talking to people, started with friends who knew what I was doing.
- ➤ Did first deal with a friend's mother, he wanted to do the next one, his father the one after that, his uncle after that ...

Team

Team is very important

Need to have smart people can consult with

 Escrow/Title is <u>SO</u> important – "let me ask legal" is kiss of death

Team

 But don't worry about it ... team will start to appear over time

 Find people want to associate with and be nice to them – do lots of favors, be a friend. Help make other people money

Team

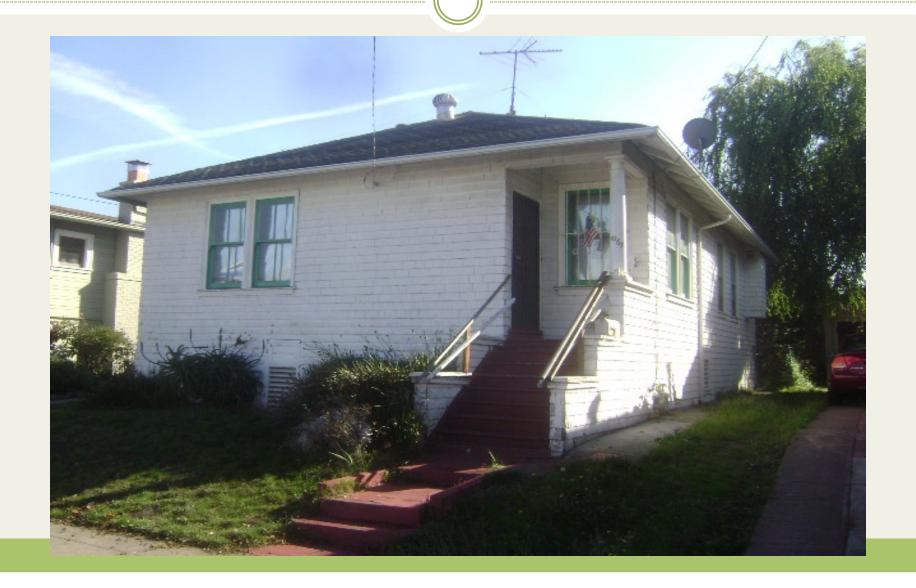
 Most important thing: find a good deal ... you'll have money and soon, friends!

• Deal is the key – and make sure it's really a deal, not "sort of" a deal ... good way to upset an investor

Finding Great Educators

- Super important to always be learning so many ways to buy creatively
- My favorites include ... Mike Cantu, Greg Pinneo, John Schaub, Pete Fortunato, Fixer Jay DeCima, and of course, Jack Miller

Case Studies – 66th St., Oak

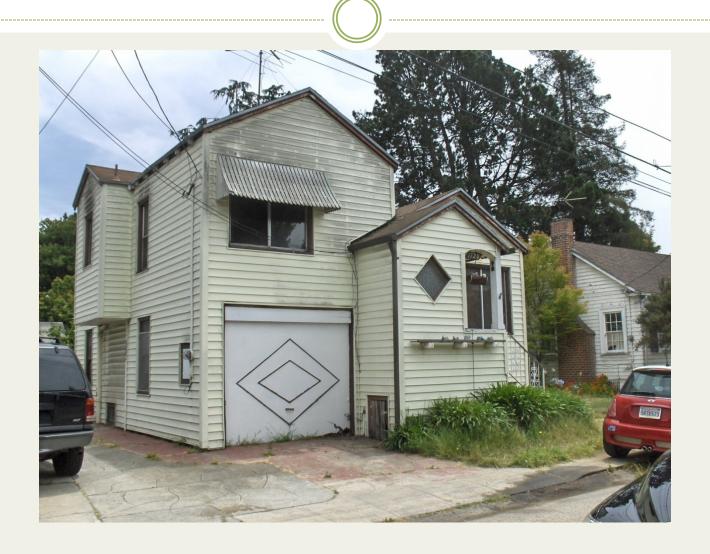


66th St., Oakland

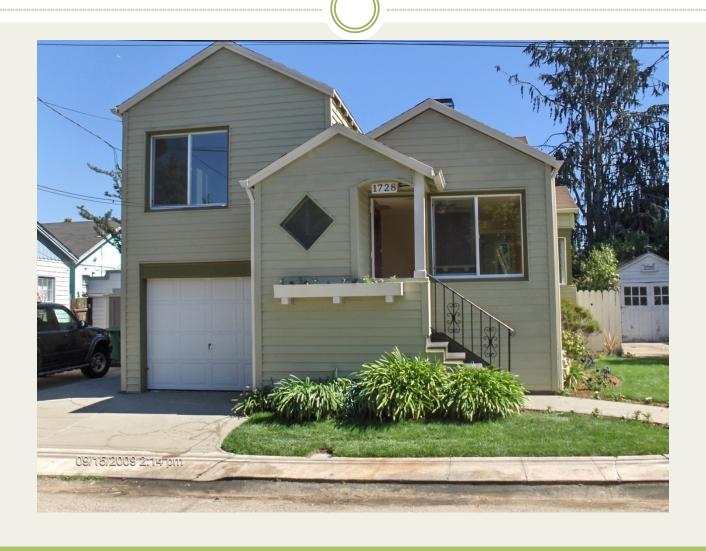
• Bought, Jan 2009, \$180,000 owner finance, 0% interest over 15 years, \$15,000 down, \$500/month principal

• Sold: April 2009, \$227,000; 5.25%, \$27,000, \$875/ mo payment

Tregloan Ct, Alameda



Tregloan Ct, Alameda



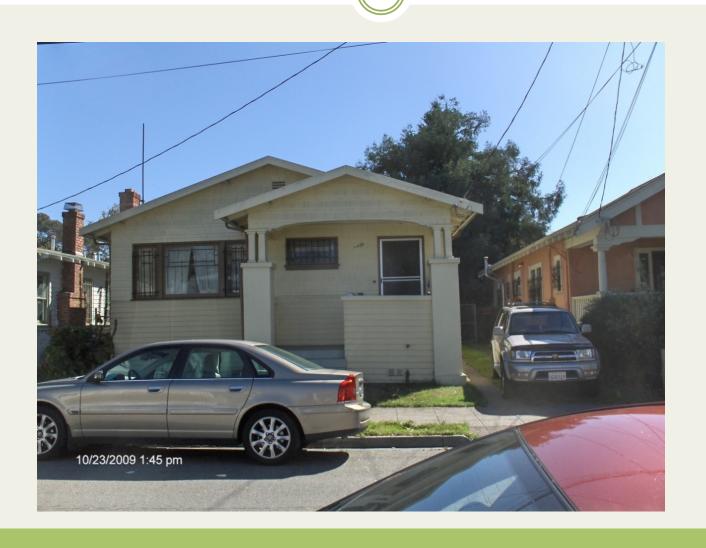
Tregloan Ct, Alameda

Purchased \$152,000

• \$45,000 to remodel (and 3 months!)

• Rented: \$1,925/ mo; current value: \$500,000; wait at least 1 yr to sell

54th Street, Oakland



54th Street, Oakland

Purchase price: \$170,000

Re-negotiated to \$165,000

Have a buyer at \$270,000

54th Street, Oakland - After



54th Street, Oakland - After



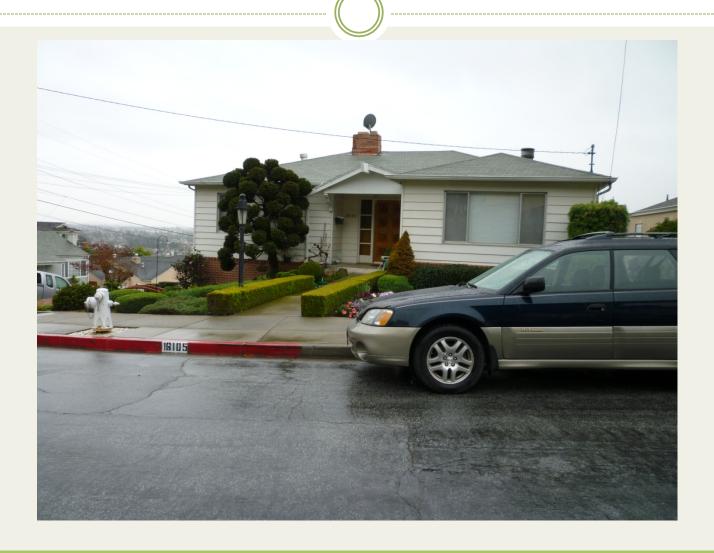
54th Street Highlights

- Purchase: Dec 2/09 \$165,000
- Original plan: flip at \$270,000
- Deadline: Dec 8/09 in time for Brokers' tour Dec 10th.
- 1st Open House: Dec 13th, ask \$341,000
- Received 9 offers on Dec 16th
- Accepted offer at \$440,000

54th Street Highlights

- Profit: \$440,000
- Less: \$12,500 financing, escrow
- Less: \$24,000 commission
- Less: \$26,000 rehab and staging
- Net: \$212,500
- Time: 42 days

16105 Selborne, San Leandro



16105 Selborne

Highlights

- Met talking to someone met on street.
- Paid \$330,000 May 2012
- Borrowed \$ 365,000 from Private lender
- Rehab cost \$80,000
- Sold for \$570,000 (\$71,000 over asking
- Profit: \$570,000 \$31,350 (commission) \$3,000 (closing) \$80,000 (rehab) \$18,250 (funds)
- Net: \$100,710
- Closed: Sept 10, 2012

909 Key Route, Albany



909 Key Route, Albany

Highlights

- Bought from wholesaler I met in first year of business Dec 25
- Paid \$340,000 January 5, 2012
- Borrowed \$ 387,000 from two private lenders
- Rehab cost \$ 150,000
- Sold for \$ 705,000 (\$ 105,000 over asking)
- Profit: \$705,000 \$38,775 (commission) \$12,000 (closing taxes) \$150,000 (rehab) \$19,000 (funds)
- Net: \$140,240
- Closed: July 27, 2012

909 Key Route, Profit calculator

В		С	D	Е	F		G	Н	1	1	J	K		L	M	N
909 Key Route																
												(On F	urchase		
Expenses					Payments											
Contractor	Co	st	Cmpltn date		Contractor	Amo	ount	Date	Method				\$	340,000	Buy	
Initial Contract	\$	42,226	29-Feb			\$	15,000	24-Feb	check				\$	150,000	Repair	
Permits	\$	2,226	24-Feb			\$	2,226	24-Feb	check				\$	19,500	Money	
CID Contract	\$	87,000	5-Jun			\$	5,000	8-Mar	check				\$		Escw+Tta	x (2x)
CO#1	\$	7,955	7-May			\$	10,000	17-Mar	check				\$	38,775	Commissi	ion
CO#2	\$	2,700	18-May			\$	10,000	2-Apr	check				\$	4,500	Staging	
CO#3	\$	1,250	21-May		CID	\$	5,000	17-Apr	check						Misc (tx,e	lec,in
CO#4	\$	(900)	13-Jun		CID	\$	15,000	26-Apr	check				\$	564,760	Total	
Bonus		2,500			CID	\$	20,000	4-May	check							
					CID	\$	22,000	11-May					\$	705,000	ARV	
					CID	\$	15,000	25-May						- 0.1		
					CID	\$	5,000	8-Jun								
Total COs	Ś	13,505			1000	\$	16,805	12-Jul	check							
Sewer line	Ś	6,400			CID Payments	\$	98,805									
Total Costs	\$	144,957			Total Pymts	\$	141,031		% of Tot du	ıe	97%					
						11-11			Amt due	Ś	3,926		\$	140,240	Total Pro	fit
All Other					All Other											
Faucet					Faucet	\$	140	24-Feb								
Lighting	\$	1,800			Lighting											
Kitchen faucet		-			Kitchen faucet											
Mailbox	\$	75			Mailbox											
Danny Lu	Ś	1,800			Blinds											
					Bthrms & lights (order 1 WF)				Completion Dates							
					Appraisal				Orig		5-Jun					
					Light (ext, Lamps Plus)				CO#2							
					G (,											
Grand Total	Ś	148,632			Grand Total	Ś	141,171									

How I put deals together, beginning to end

- Valuation
- Offers that attract owner financing
- Negotiation techniques
- Rapport building
- Present Value: money, not math
- Escrow
- Rehab and Contractors
- Maximizing profit on sale or keepers
- Private Money
- Organized Office

Contact

- ▼Richard Kelly
- ×rk.griffinbranch@gmail.com
- ×(415) 341-6087

▼Private Money (call if you have lazy money), Consulting, Contracts, Deal Sharing, Deal to Sell, Coaching