

Notes from week 1

- I got homework from about $\frac{1}{2}$ of you
- Biggest “problem” was people not understanding how to find a type 2 area
- Download this week’s handout and homework at regoddess.com/WholesalewithVena, password VenaRocks18
- WholesaleSchool@gmail.com
- Regoddess.com/fast-track



WHOLESALING SCHOOL

Week 2: Finding the Value of
Properties



This Week's Topics

- The crucial importance of deal finding
- Why finding value seems so hard
- Why what you wish worked doesn't
- Why you're ALWAYS trying to find ARV, NEVER current value
- What makes a sale a 'comparable' sale
- How to get to the real value
- What to do when there are "no comps"
- How to appraisal fits into the timeline of the deal

THE BIG PROBLEM WITH MOST NEW WHOLESALERS...

They believe the “Zestimate” that says this house is worth \$250,000



They do the math...

\$250,000

X.7

175,000

-\$50,000 repair costs

\$125,000 sale price to buyer

-\$15,000 wholesale fee

\$110,000 offer

When the REAL math is...

\$210,000 ACTUAL ARV

X.7

\$147,000

-\$50,000 repair costs

\$97,000 ACTUAL sale price to buyer

And they have the property
under contract for \$110,000...



WHEN THE
ARV IS
WRONG...

...It's just ALL wrong

Does property have “a value”?

“There’s this property I’m thinking of buying. The seller won’t take less than \$110,000. My comps say it’s worth \$105,000. Zillow says it’s worth \$135,000. An experienced local agent told me it would probably sell for at least \$115,000, but then I just had a wholesale buyer tell me it’s only worth \$95,000. I’m confused beyond belief.”

Let's parse this out:

The seller won't take less than \$110,000—it's worth \$110,000 to the seller, who will simply keep it if you don't value it as much as he does

My comps say it's worth \$105,000—other buyers are only willing to commit to \$105,000 for the same house

Let's parse this out:

Zillow says it's worth \$135,000—A computer generated automated valuation model (where there's no buyer OR seller in the equation) has averaged tax values and come up with this number

An agent told me it would sell for \$115,000—That's the price at which he's willing to risk not being able to sell the property

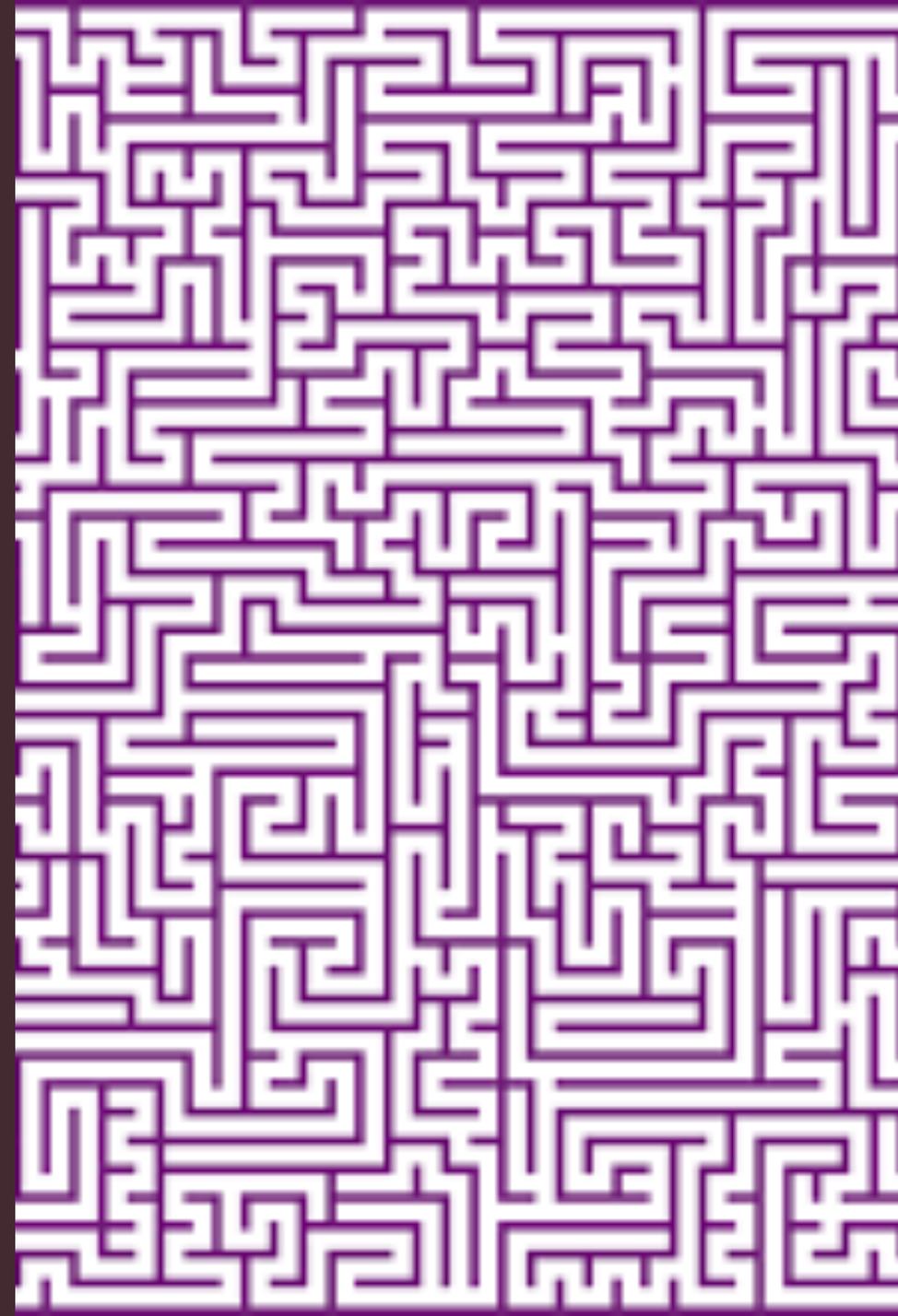
An investor/buyer told me it's only worth \$95,000—
he wants a bigger discount to deal with this area or project

The real estate market is an “imperfect market”

- There aren't thousands of ready, willing, and able buyers setting the value on every property every minute
- There's no agreed-upon return that houses “should” make
- Because people live in houses, emotional factors come into play

The bad news about that...

- Sellers often 'value' their properties more than you do
- Buyers often 'value' your deals less than you do
- And this can seem confusing and random



The good news...

- The value arbitrage is what lets us make money in real estate!
- When a seller has a house that's "worth" \$200,000, but he wants to get rid of it so badly that he's willing to trade it for \$150,000...

AND YOU
CAN'T GET IT
THE "EASY
WAY"

SAME
HOUSE,
SAME DAY...

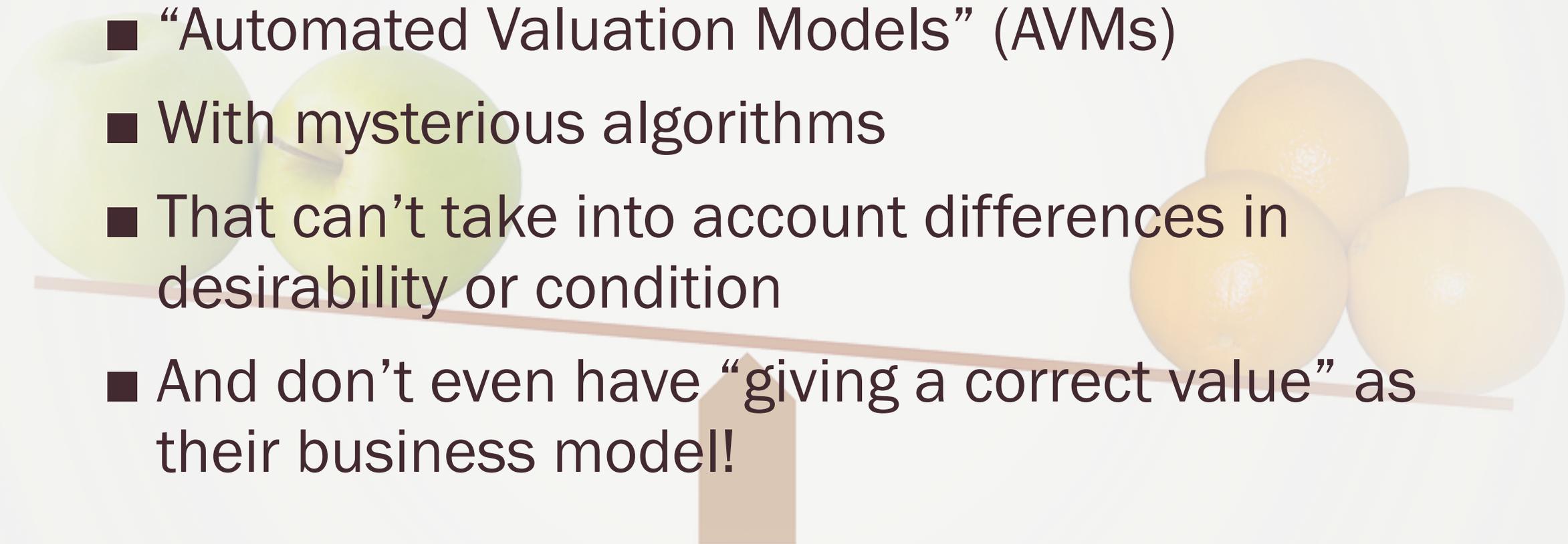
Free Moving Planner

Est. **\$131,400** 



Track Your Home Value

These “Free” Services Are All...

- “Automated Valuation Models” (AVMs)
 - With mysterious algorithms
 - That can’t take into account differences in desirability or condition
 - And don’t even have “giving a correct value” as their business model!
- 

Market Improvement Value	11,180
Market Total Value	115,740
TIF Value	0
Abated Value	0

THE HOUSE CAN'T BE WORTH \$127,000 AND
\$165,000...

And it also can't be worth \$115,000 and \$165,000...

And there is an agreed-upon way to estimate value



- It's called "ARV" or "After-repaired value"
- It's the MOST LIKELY sale price property when:
 - *It's in good condition for the area*
 - *And the transaction is arms-length*

Wait, that's not what we're looking for...

- Wholesalers find **DISTRESSED PROPERTIES**
- Sold by **MOTIVATED SELLERS.....**



True, but...

Distressed house A
needed...

- Kitchen
- Bath
- Paint
- Carpet
- Furnace

And sold for \$110,000

Distressed house B
needed...

- Roof
- Foundation work
- windows
- Re-wiring

And sold for \$60,000



IT MAKES A
LOT MORE
SENSE....

To start with the fixed up value, and back
out the costs to fix!

Let's remember why we're doing this

- To start with a number that our BUYERS
- Are likely to agree that they can sell for
- AFTER they've done the work (which we'll work out later)
- So that we can make the right offer



Finding ARV, step 1

- Find a source of “Comparable Sales”, AKA “Comps”
- Public Records Data
- MLS Data
- Public Records Aggregators
 - *Yes, including Zillow et al*

Typical “Aggregator” Report

Field	Subject	<input type="checkbox"/> Comp Property	<input type="checkbox"/> Comp Property	<input type="checkbox"/> Comp Property
Tags				
Address	10882 Maplehill Dr	1902 Bluehill Dr	1870 Roosevelt Ave	1934 Lotushill Dr
City	Cincinnati	Cincinnati	Cincinnati	Cincinnati
Zip	45240-3365	45240-3310	45240-3322	45240-3316
Parcel Number	<u>5900391024200</u>	<u>5900391008500</u>	<u>5900391010300</u>	<u>5900391012600</u>
Sale Date		May-31-2017	Jun-20-2017	Sep-12-2017
Sale Price		\$59,900	\$447,000	\$70,000
Deed Type	Warranty Deed	Warranty Deed	Grant Deed	Warranty Deed
Owner Name	Bonham Donald R	Bird Randi J	At Cedar Llc	Rahman Abdur
Distance (miles)		0.2703	0.2083	0.1802
Location	Springfield Township	Springfield Township	Springfield Township	Springfield Township
School District	Mount Healthy CSD	Mount Healthy CSD	Mount Healthy CSD	Mount Healthy CSD
Census Tract	0215725010	0215091015	0215092009	0215092008
Usage	510 Residential - Single Family	510 Residential - Single Family	510 Residential - Single Family	510 Residential - Single
Legal Desc	MAPLEHILL DR 62 X 151.66 IRR LOT 173 SEVEN HILLS VILL BLK G	BLUE HILL DR 63.03 X 139.52 IR LOT 79 SEVEN HILLS VILLAGE SUB BLK B	ROOSEVELT AVE 60 X 153.60IRR LOT 506 SEVEN HILLS VILLAGE SUB BLK B	LOTUSHILL DR 65 X 130 HILLS VILL BLK C
Total Square Feet	1,025	1,000	1,000	1,000
Square Feet 1st Floor	1,025	1,000	1,000	1,000
Bedrooms	3	3	3	3
Baths	1 full	1 full	1 full	1 full
Rooms	5	5	5	5



Finding ARV, step 2

- ELIMINATE sales that are very unlike your property

Make sure you're actually looking at COMPARABLE SALES

CLOSE TO your
subject property
(.25-.5 miles, in a
city)

RECENT SALE (last
3-6 months in a
rising or falling
market)

GOOD CONDITION
at time of sale (per
agent comments
or drive-by)

SAME SCHOOL
SYSTEM

SAME
"NEIGHBORHOOD"

ARMS-LENGTH

Similar Properties

Usage (1 vs, 2 vs, 3 family)



Construction (brick/stone/bklock vs. frame)



Square footage (+/- 10%)



Era of construction



Basement vs. slab

Utility type (septic vs. sewer, oil vs. gas)

Number of full levels

Number of rooms, bedrooms, and full baths

Defects in location (busy street etc)

Parking (on street, off street, attached garage, detached garage)

Similar
properties

Porches/patios

Entry halls

Laundry rooms

Attic storage

Fireplaces

Differences
that matter
less...

Differences that matter only in dollars

- Central air
- Siding
- Fences
- Decks
- Landscaping
- Any upgrade that can be added for \$x

How many comps is “enough”?

- 3-5
- But chances are, they’ll still be spread over a 10-15% range, like this:

\$146,700	\$149,500	\$153,000	\$159,300	\$160,500
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- WHAT DO YOU DO?

In a rising market...

- And assuming that these houses are all alike, the value is...



\$146,700	\$149,500	\$153,000	\$159,300	\$160,500
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In a falling market...

- And assuming that these houses are all alike, the value is...



\$146,700	\$149,500	\$153,000	\$159,300	\$160,500
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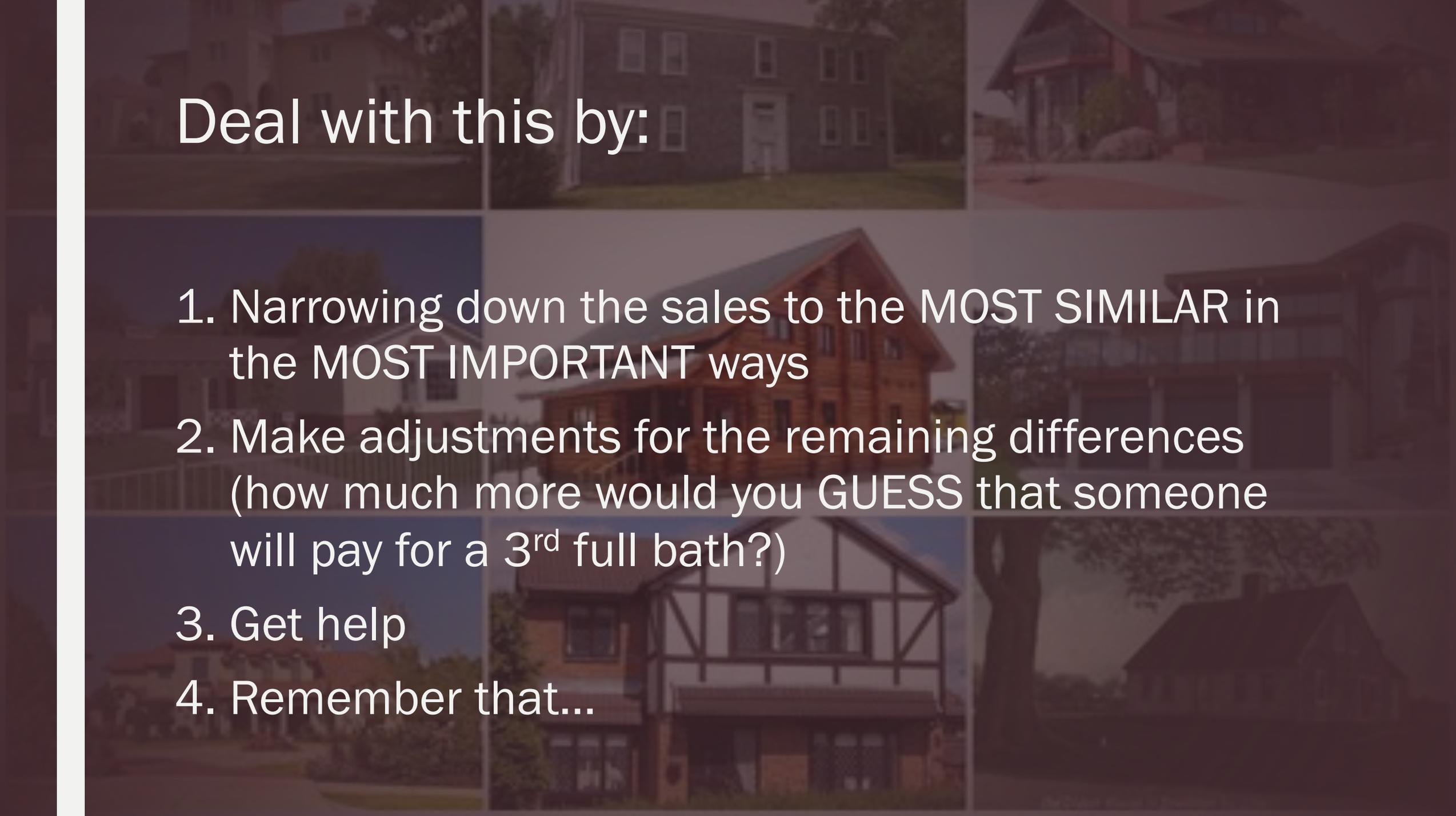
But it's practically NEVER the average

- The average of \$153,800 is:
- Too low for a hot market
- Too high for a cold market

What About When...

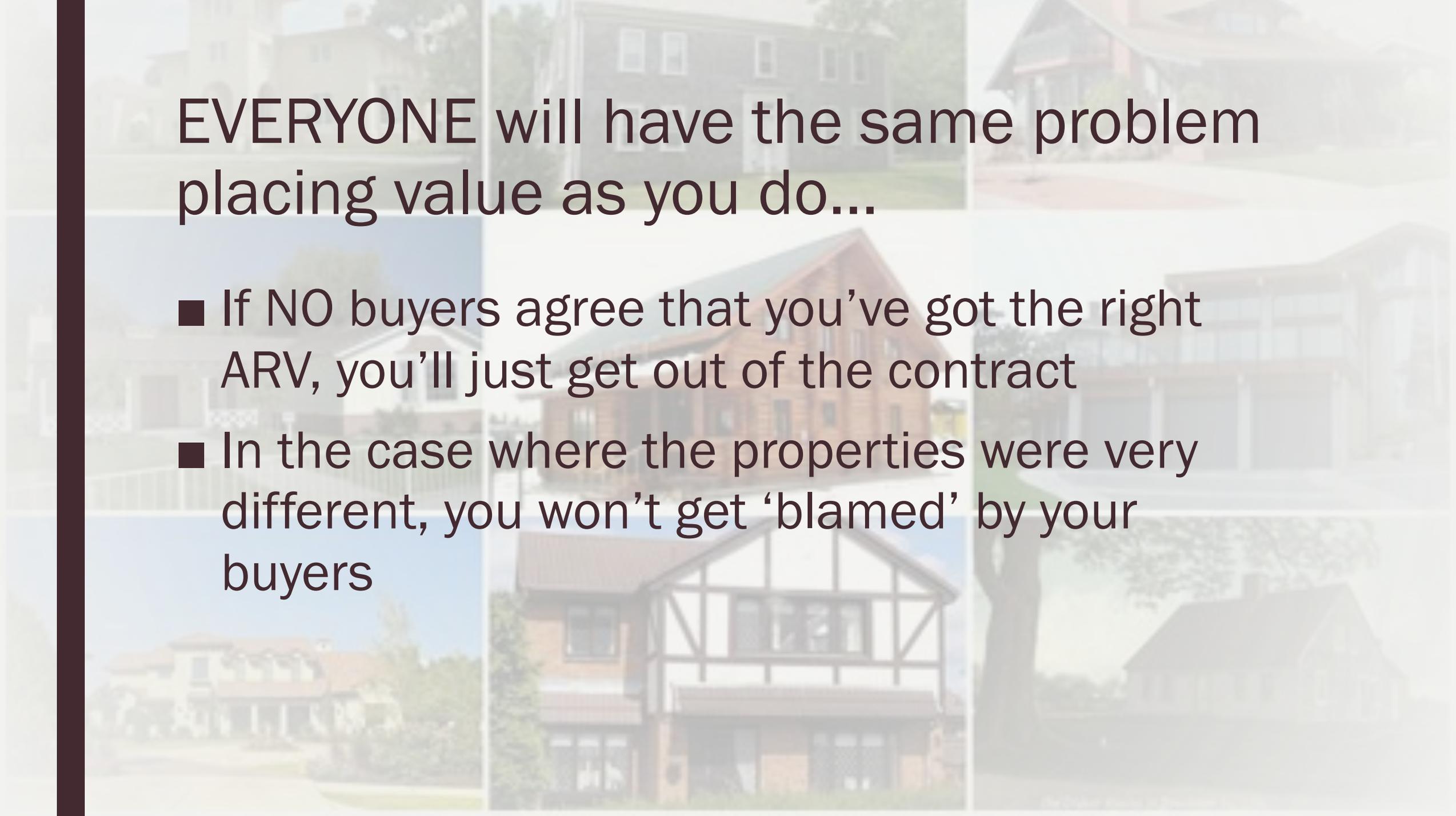
- Even the ‘comparable sales’ seem really different?
- This is a common problem in older neighborhoods





Deal with this by:

1. Narrowing down the sales to the MOST SIMILAR in the MOST IMPORTANT ways
2. Make adjustments for the remaining differences (how much more would you GUESS that someone will pay for a 3rd full bath?)
3. Get help
4. Remember that...



EVERYONE will have the same problem placing value as you do...

- If NO buyers agree that you've got the right ARV, you'll just get out of the contract
- In the case where the properties were very different, you won't get 'blamed' by your buyers

What about when there are NO comps at all?

1. Look at some non-arms length transactions
2. Look at some of the active listing
3. IN RENTAL AREAS ONLY, use the trashflow analysis

the most common reason you can't 'Find comps':

- There are sales, but no arm's length transactions of properties in after-repaired condition
- This happens exclusively in Type 1 and 2 areas: border zones and warzones
- And these areas have something else in common: most buyers are LANDLORDS

Real comps from a real house I'm really evaluating right now

Lender	Fairmount	276	1554	Sold	1500018	FM	2002 Queen City Ave	\$2,750	7	3	2 (1 1)
Corporate	Price Hill	59	1613	Sold	1520988	PH	1615 Ross Ave	\$12,000	7	4	1 (1 0)
Government	Price Hill	5	1091	Sold	1516830	PH	3102 Lehman Rd	\$15,000	5	2	1 (1 0)
Consumer	Price Hill	16	792	Sold	1524566	PH	1312 Considine Ave	\$24,000	4	2	1 (1 0)
Lender	Price Hill	15	850	Sold	1534011	PH	1655 Atson Ln	\$32,000	4	2	1 (1 0)

The solution

- Use a simplified version of the “Income analysis” used in evaluating multi-family income properties
- This method uses the fact that landlords buy properties BECAUSE of their cash flow/return to determine a value TO A LANDLORD

Inputs you'll need

These, calculated monthly:

1. Probable rents when the property is completely stabilized
2. Real estate taxes after adjustment
3. Expected property insurance
4. Any owner-paid expenses or utilities typical in your area
5. The monthly net-net cash flow that a typical landlord in your area wants to make to own a property in this neighborhood

Inputs you'll need

This, derived from your inspection of the property:

- The cost to completely stabilize the property to the expectations of the neighborhood

(this will be on the download page)

Trashflow Analysis Calculator		Low	High	
rent	\$ 850.00	\$ 900.00		from rental comps
Property tax (after adjustment)	\$ 80.00	\$ 80.00		based on the probable purchase price
utilities				owner-paid only
insurance	\$ 40.00	\$ 40.00		get basic numbers from a local agent
maintenance/vacancy/reserve	\$ 170.00	\$ 180.00		20% of gross rents for single family, 30% for a 2 or 3 family
	\$ 560.00	\$ 600.00		
subtract desired cash flow	\$ (150.00)	\$ (150.00)		what local landlords want to make in this area
net avail for mtg	\$ 410.00	\$ 450.00		
mtg amt	\$56,248.74	\$61,736.42		
less repairs	\$(20,000.00)	\$(20,000.00)		from your inspection
subtract wholesale fee if you plan to wholesale	\$ (7,000.00)	\$ (7,000.00)		
Your MAO for wholesale	\$ 29,248.74	\$ 34,736.42		
Your MAO to keep (wholesale sale price	\$ 36,248.74	\$ 41,736.42		

How this works:

- It ASSUMES that the typical landlord will get a private loan for 100% of the purchase and repair costs at 8% interest
- It assumes that the landlord will do all the work necessary to stabilize the property
- It subtracts the expenses and desired cash flow from the income to determine how much money is left over to service a mortgage
- Then uses that number as the monthly payment in an 8% 30 year loan and determines how big that loan can be

Always cross-compare to the comps you have...

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Corporate	Price Hill	59	1613	Sold	1520988	PH	1615 Ross Ave	\$12,000	7	4	1 (1 0)
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Summary: how to find value when there are no comps

1. Determine whether it's worth finding
2. If the property is a retail-type property, make your best guess based on existing comps and "anti-value" and use an appraisal contingency
3. If the property is in a rental-type area, use a Trashflow analysis and compare to the comps

Bottom Line...

- Don't torture yourself over value
- Do your best, settle on a number and get on with making an offer

The order of the appraisal in the deal

1. Find a motivated seller
2. AFTER you've talked to the seller and BEFORE you've seen the property, run comps to determine a probable ARV
3. If the seller's asking price seems reasonable based on this and probably condition, go see the property
 - a) *If not, tell the seller what DOES seem reasonable*
 - b) *Drive by the comps before the property*
4. Using the final ARV and repair costs, make a final offer