Commercial Wholesale Training

Welcome to Session One!

Ed and Bob Diamond

[Logos for CBS, NPR, NBC, MSNBC]
Structure of Training

• We cover the entire course over 4 weeks –two hours per session

• Calls are typically 40 minutes of presentation and then the balance of time is Q&A

• Your part is to read the modules before hand and/or view the training online
You Are Poised to Succeed!

• What is Wholesaling and Why Use this Strategy?

• Resources for you so you can get your first deal
What is Wholesaling

• Locate Property and get under control

• Sell your control position to a wholesale buyer who is an investor who wants your great deal
Why Wholesale?

- FAST
- No Risk
- No down payments
- No credit needed
Why Commercial

• Larger Deals

• No Drama

• No regulations and rules to stop you

• Easier – all numbers based
Commercial Real Estate?

- Apartment Buildings to Offices to Trailer Parks to Shopping Malls and everything in between
- Anywhere business is conducted
- Not SFR and not 4 units or less of apartments
- What do you start with?
Right Time

- Lots of Buyers looking for deals
- Lots of flexible sellers
- Great Deals
- Room for you
Myths of Commercial

• It's hard to Analyze
• You have to close on it to make money
• There is no money looking for investments
• It's Risky
• Where do I find a buyer?
 +/- of Various Types of Properties

- Apartment Complexes
- Office Buildings
- Retail shopping centers
- Self Storage
- Hotels
- Mobile home parks
- Other properties
How to Get Started

• Attend Training and read materials
• Computer with Open office or Microsoft office
  -http://www.openoffice.org
• Separate Cell Phone
• Multifunction machine – laser by Brother MFC series
• Digital camera
• Small Whiteboard and eraser from Staples
• Module II - Number Crunching

• We will cover Chapters 1 Through 5 of Module II
Chapter 1 Analyzing the Deal

● 3 Items You Need for initial analysis
  – Annual Income
  – Annual Expenses
  – Debt Service per year (mortgage payment)

● Purpose of Initial Analysis is to See if you want to look at the property at all
Example of Initial Analysis

- 8 Unit Building Asking Price $250,000
- Rented at $600 per month per unit ($57,600 per year)
- Total expenses of utilities, insurance, repairs, property management etc. $17,000 per year
- Mortgage payments if we financed $250,000 = $16,105 per year
Example of Initial Analysis

Annual Income    $57,600
Annual Expenses    -17,000
Annual Mortgage    -16,105
Annual Cash Flow    $24,495
Purpose of Initial Analysis

• Initial Analysis is just to determine if you should go look at the property

• It MUST cash flow or do not look at it. At least $ per unit per month at 100% financed.

• If you do not have that much cash flow you have an unrealistic seller

• Use the cash flow spreadsheet for more exact numbers and before you take on the property
Investment Terms

• Gross Income = rents + extras
• Effective Gross Income = Gross income less average vacancy
• Operating Expenses - taxes, insurance, utilities, repairs, management costs etc. but NOT including Debt Service
• Debt Service = Mortgage payment
Chapter 2 - Guiding Principals

- Positive Cash Flow. Cash flow = Monthly Profits

- Cash on Cash Return 10% or Greater - how long does your downpayment come back?

- CAP Rate = higher the better, at least 8%
Module II Chapter 3 Examples

- Do the examples
- Use the Analysis Spreadsheet
- Practice Property one has Debt Service Coverage Ratio of 1.68 (NOI / Mortgage payment) - 1.21 is “bankable” and higher is better

DO THE EXAMPLES
Module II Chapter 3 Building Classes

• Class “A” = new (less than 10 yr), modern, beautiful, great location
• Class “B” = older (10 - 20 years), sites are OK, solid, middle class, stable
• Class “C” = old (20 - 30 years), deferred maintenance, lower income, annoying and hard to manage
• Class “D” = Boarded, vacant, undesirable, stay away
Repositioning

● Lots of money to be made fixing a class “C” type building in an “A” or “B” neighborhood up to class “A” or “B” condition
● Neighborhood must support the building
● Never build a palace in a slum
Tips When Evaluating

- Proformas are best case fantasies. Unrealistic and unreliable
- Operating expenses from sellers are understated. Verify every number
- Taxes can go up on sale - call assessors office to check if reassessed upon sale
- Get tax return from accountant and certified by accountant as true for real numbers on income
- Look for separate utilities
- You can fix a property but not location
Module II Chapter 4 - Value

- NOI is the value (cash flow). Higher NOI - higher value
- Small change in NOI changes value dramatically
- If your building were in a 7% cap rate area increase NOI by $5,000 and get increased value of $5,000 divided by .07 = $71,429!
- NOI increases come from decreasing expenses or increasing income (raising rents)
Module II Chapter 5 - Good v. Bad Deals

- Read this on your own
- Self explanatory
Next Class - Module III - Finding the Best Deals

- Criteria for best areas/cities
- Finding sellers and deals
- Effective communications
- Insider Secrets
- REOs
Best Ways to Increase Value

- Lower Expenses
- Make cosmetic improvements and thus increase rents and decrease vacancy (expense item)
- Pass on utilities to tenants - separate out utilities or pass on the expense
Commercial Wholesale Training

Ed and Bob Diamond

Module III
Chapter 1 Where to Invest

● Timing is important - if you are a principal
  – Buy when values are stable or rising
  – Avoid “catching a falling knife”
  – Values CAN go down even further no matter what “experts” or historians say

● With Wholesaling timing does not matter if you have a buyer you win!!!
How the Pros Select

● Stay local if possible. It is easier
● If your area is not good shop around different cities for the best opportunity
● Look at population trends - increasing population = better place to buy
● Shrinking cities like Detroit are tough to make money in
Where to Get Data

• Check with Chamber of Commerce
• Economic Development Council in the City you are considering
• Look for growth in jobs, construction permits, major new employers
• Subscribe to local newspapers and business journals to keep up
Can You Succeed in Your Town?

• You can succeed in most areas
• Since you are wholesaling you just need buyers - limits your risk
• Get to know your area intimately so you can talk to buyers intelligently
• Microsoft school and UPENN examples
Pricing Changes in Stable versus Growing Areas

• In stable areas (not growing) people buy for cash flow
• In growing areas they pay a premium in expectation of future growth
• Most areas now are NOT growing so the cash flow analysis and CAP rate is very very important to investors
Chapter 2 - Great Deals

• The 100 to 1 Rule is why you get paid
• Smart investors look at 100 properties, make offers on 10, get 3 accepted and Buy 1 Property
• You are doing the leg work so they look at 1 and buy 1 - that is why you get paid - it is the value you bring to the table
You are a Supplier of Great Deals

• Wealthy investors recognize your value as a supplier of great deals
• If you give them great deals they buy from you and stay with you
• The relationship you build will make you money – always bring good deals
Develop Expertise in Your Market

• Educate yourself in your market by looking at properties and analyzing them
• You should have a working knowledge of what is for sale when you are wholesaling a property
• Go on Loopnet.com and start looking online then make appointments and get the figures on the properties
• Stick to one type of property - apartments, self storage, strip centers, wherever you want to start
• You may very well find a deal this way but the first goal is knowledge so you can speak with buyers intelligently and negotiate with Sellers from a place of knowing
Other Sources for Listings

- www.SVN.com
- www.MarcusMillichap.com
- www.CBRE.com
- www.Colliers.com
- www.HPAPTS.com
- www.Costar.com
How to Find Buyers

BUYERS

• The cash buyer feed in the online system
• www.dunhills.com
• At your local apartment owners association or your local REIA club (www.nationalreia.com)
• Apartment owners association is much better than REIA clubs
• Brokers are not your source for buyers
Chapter 3 - How to Find Sellers and Buyers

Sellers

- Melissadata.com or from Assessor - direct market to them
- Tax liens (tax assessor and our system) - direct market to them
- At your local apartment owners association or your local REIA club (www.nationalreia.com)
- Brokers are not your source for deals - they do not like what we do
Chapter 4 - Direct Marketing

• You Must REPEAT mailings. Mail to Sellers not under pressure quarterly
• 7 letters per prospect
• Regular like a clock
• Same letter is OK
• Mail to Buyers quarterly as well
• Send them to Website or to your phone
• Diligence wins here
Chapter 4 - Communications

• Build the relationship by getting to know
• Read them - some like crisp and short - some like to talk
• Ed versus Bob
• If in doubt be direct
• Under-promise at all times
• Be consistent at all times
Chapter 5 - Best Deals

• Come from relationships
• Come from consistency
• Follow up
• Keep in touch
• Then follow up again
• Join every organization and club that has your prospects in it (ie Apartment owner association) and then go and mingle!
• People are your key to success
• Its now WHAT you know its WHO you know
Chapter 6 - Distressed Deals

• Talk to your banker and then get intros to other bankers
• Monitor the foreclosure listings in your area - check title company and legal newspapers and do online searches
• They move fast - be sure to like up your buyers first
• No one wants to look at you like an intermediary
Next Class - Module IV - Offers

- Offers
- Counter offers
- Calculations