



THE TOP NINE MISTAKES NEW SHORT SALE INVESTORS MAKE

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No matter how much you prepare in this business, you're going to make mistakes. Here I am going to give you a list of all the places where mistakes can be made when attempting to buy and sell a short sale. I wanted to do this so that you could avoid these mistakes and let my learning curve shorten yours. The following list was compiled not only from mistakes I made as a rookie, but from mistakes I've seen from countless students in our coaching program. It's amazing how we all make the same mistakes!

Read through these, keep them in mind and do your best to avoid them. The one thing about real estate is, mistakes can really hit you in the pocket. The slip-ups described below may not cause you to lose money on a deal, but they will cause you to make less money or not make any money at all, which isn't so much fun.

1. Paying Too Much For A Property

What's the golden rule about real estate investing? You make money when you buy, NOT when you sell. This is the single most common mistake investors make that ultimately causes them to get out of the real estate business and find work at the local hardware store.

When you pay too much for a property, it can drive your business into the ground. When we get started as a real estate investor, we are brimming with confidence and are so excited about buying houses that our optimism can get in the way of sound judgment. The problem is, one mistake can wipe out the profits of three properties that you got right. And mistakes tend to hang around month after month -- in some cases it took us over a year to sell our problem houses, and the monthly holding costs were like a dagger constantly pressing against our backs.

Be conservative. Here's good calculation that is sure to help you buy smart:

- a. Take the after repaired value. (What you think the house will sell for after all repairs are made.)
- b. Subtract the amount of repairs needed.
- c. Multiply times 70%. This should be your maximum offer. So your initial offer would be less than this. Maybe 60%, 64% or 67% of the AS-IS value.

Here's an example: A house is worth \$200,000 once it's fixed up. It needs \$20,000 in repairs including kitchen and bathroom updates, a new roof, a new furnace, carpet, paint, and landscaping which adds up to \$20,000, including labor. So the AS-IS value = \$180,000 (\$200,000 - \$20,000 repairs). Multiply \$180,000 by 70%, which equals \$126,000. That's your maximum buy price.

In some markets you will want to be extra careful. You should always consider what you think the house will sell for in three to four weeks, and then multiply by 60%. Remember, this is a negotiation with the bank, and the purpose of your offer is to get the ball rolling and have the lender order a BPO.

What's great about short sales is that they provide the ability for the investor to re-sell a property immediately after the initial purchase. This removes the possibility that we may have offered too much. Through a back-to-back purchase and resale we can almost remove this risk entirely.

I have never lost money on a short sale when I used a back-to-back transaction; however, I have lost my shirt on several occasions buying and holding real estate.

2. Underestimating The Cost Of Repairs

If you've done any rehab work, you know that no matter how good you think you are at accurately estimating repair costs, the odds are against you. If you are doing full rehabs, you need to be conservative and build in additional money for all the things that may go wrong during the project.

I once had three estimates on a house, all around \$10,000-\$13,000. Then the boiler caught fire one Thanksgiving Day morning. My total cost of repair easily doubled the initial estimates.

You just never know...

Here's the good news: If you learn how to conduct back-to-back transactions for short sales, you will limit your exposure to these types of incidents. The most rehab you will do will be minor paint and carpet -- just enough to make the house presentable. Total expenses should be no more than \$3,000-\$5000, depending on your market. Remember, you are buying a property well below market value, and selling it well below market value. Sometimes you need to leave a little fat on the bone for the end buyer. If you do, you'll have no problem selling your properties.

3. Neglecting To Stage Property

If you want to give your property the best chance for a quick sale, then consider staging it. Rent some furniture from Cort and keep the costs down. The goal is to suggest what the house might look like if it were being lived in. You do not need to go overboard, just include enough furniture or accent pieces in different rooms to create a positive energy for potential buyers to see.

The purpose of staging is to make the house look, feel and smell new. Stage the outside to give the property attractive curb appeal. Stage the inside to make the property look and feel comfortable and roomy. Short sale or no short sale -- always, always stage your properties to get the maximum re-sale value.

4. Failure To Build A Workable Buyers List

As a short sale investor, you will want to sell your properties to end buyers who intend to live in the house. Retail buyers pay retail prices, which means more profit for the investor. This means that you will need to learn how to work with real estate agents.

However, there will be times when you have properties that would be ideal to wholesale to, so it's a smart practice to draft a list of potential buyers. This list is generally made up of those investors who specialize in rehabs or rentals. Unfortunately, this group often needs to buy as steep as you to make the deal work, so profits will be smaller than short sales that are sold to buyers who want the house for their home. Keep in mind that landlords will buy at a higher margin.

It's a good idea to go to REIA meetings and to network with other investors in your community. Moreover, you can also create a list of buyers quickly by placing an advertisement in the classifieds stating that you are liquidating a portfolio of properties and need to sell fast.

An issue of importance is how to create a workable list that is organized and used effectively. After all, haven't we all made the spreadsheet and failed to use it when we need it most?

Our preferred method for keeping track of contacts is using Realeflow's Open Road – an effective business management system for real estate investors. This includes a buyer- and seller-matching component that does exactly what it sounds like it would do. Just enter the properties that you are selling into the system and enter the buyers from your list, and their criteria and they automatically match up. All you have to do is make the phone calls to see if they are interested.

5. A Failure To Secure Private Money

If I could go back to the day I decided to buy and sell real estate for a living, the first thing I would do is study the most effective marketing techniques to fill my pipeline full of leads. The second thing I would do is to make raising private money and finding partners to team with a top priority. When we started, we thought we could do all the deals ourselves. When we were quick-turning one or two houses per month, no problem. But anything more we simply didn't have the money to buy the property and quick-turn with any confidence.

So how do you find private lenders and partners? Spread the word. Pass out business cards. Go to REIA meetings. Google "hard money for real estate." Let people know that you need large sums of money for short periods of time ranging up to 30 days and that you will pay them a point (1%) on what they loan. In order to structure a back-to-back short sale transaction, you'll need money to fund the first transaction. Use other people's money if you don't have any of your own.

6. Failing To Plan Multiple Exit Strategies

Many investors think they can only do it one way: retail everything; wholesale everything or they have to lease option everything. Use the exit strategy that will make you the most money commensurate with the time, effort and risk you put into the deal. Buying a house and selling it for a profit does not always mean you have to sell to a retail buyer who has great credit and can get a loan for the asking price. Likewise, it doesn't always mean you have to sell on lease option when you have a buyer right now.

The three most popular exit strategies are retailing, wholesaling and lease option.

Retail: Gives you the best chance to realize the greatest profit. The only downfall is that full income taxes need to be paid and, if using a real estate agent, you will be responsible for paying commission.

Lease Option: This is a good way to build for long-term wealth. If you buy right using a lease option, you can cash out some of the profit immediately through refinancing and leave some of the equity in the property to build wealth. Then a lease option buyer or a renter will pay the mortgage for you, along with

generating some positive cash flow. Then, if they buy you out down the road, you have more profit to cash out from the equity that remained in the house. Unfortunately, depending on your particular market, the floor may have dropped on housing values, so be careful.

Wholesaling: This is seemingly a simple and fast way to make money; however, profits are considerably smaller than retailing or lease options. Wholesaling is a matter of finding a buyer who buys at a discount. It could be an investor or an owner occupant. Ultimately, since they are taking the risk, they will want the property to be significantly discounted. Expect to make \$5,000-\$7,000 per transaction in today's market.

When conducting a short sale back-to-back transaction, we will always look for a retail buyer; however, if we love the property and know we can get it cheap from the lender, it may be worth our time to buy, rehab and either sell or keep in a rental portfolio. Seldom will we wholesale to investors simply because we target our marketing efforts in areas where we know there is demand for retail.

7. Failing To Focus On Revenue Producing Activities

Your objective each day needs to be focused on spending as much time as possible doing revenue-producing activities. For instance, right now how much time do you spend on revenue producing activities?

The short sale business is divided into three main areas: acquisition, negotiation and disposition. Each of those areas includes tasks that we'd define as revenue-producing ones. Please note, that revenue-producing activities do not include such things as organizing your files, cleaning the office or playing solitaire. The administrative responsibilities should either be outsourced or done by an office manager.

Focus on tasks that will create short sale opportunities such as marketing to find or to sell houses in your sweet spot, improving the effectiveness of your marketing, improving the efficiency and response of the marketing programs, managing money-making projects like marketing and BPOs, setting up referral systems and apprentice groups to bring in leads (typically for free), and creating scalability in your business.

8. A Lack Of A Coherent System To Organize Your Business

A Business Management System (BMS) is essential for establishing a business that you run, instead of a business that runs you.

Each short sale case you work will involve plenty of paper and phone calls that seem to number in the hundreds. All of this is manageable when you only have several cases, but when that number grows to 20, 50 or 80, eight hour days become 14 hour days and the weeks seem to never end.

I don't know about you, but while I love what I do, there are many, many other things that I'd rather spend my time doing. The point of building a real estate business for me was to create a business that would allow me to design a lifestyle. Some people want toys, but for me I just want time to spend with my family and to enjoy those activities that charge me up. Toys are cool, too.

If you don't have a system to effectively keep things organized and streamlined, you will get jammed up, stressed out and you'll lose deals.

Many real estate investors use a combination of Outlook and Excel spreadsheets -- and don't forget the ever popular manila file folders covered with yellow sticky notes.

An effective systems needs to track case notes, calendars, tasks, leads, prospects, buyers, sellers, estimated rehab costs, contacts, marketing, deal evaluation, potential exit strategies, bank contacts, account numbers, payoffs, title searches, document creation, utility companies, and the closing process. Realeflow's business management system, Open Road, does all this and it's web based. It can be accessed from anywhere in the world through your computer. No need for sticky notes, manila files, Excel spreadsheets, or Outlook. Check it out at www.realeflow.com.

9. Failing To Implement An Effective, Consistent Marketing Strategy

This is the number one reason real estate investors fail. Their marketing is ineffective, so they have no leads and little opportunity.

The short sale business is cyclical. The usual process for beginning investors is to begin a marketing campaign, get deals in the pipeline and begin working those deals. What happens then is that the focus switches from getting deals to closing deals, and the advertising becomes an after-thought while struggling to get deals done. Invariably, deals will close but without more deals being added to the pipeline, the new investor will begin the process again.

Negotiating a short sale can take some time. For this reason, it is important to keep a steady stream of new cases coming into your business to avoid the feast and famine cycle that drives so many investors out of business.

Simply put, when we failed to make money in the early years, it was due to a failure to consistently advertise. When we have leads, we get cases and we make money.

So the question is how do you find deals? Here's a short list:

- 1) Real estate agent referrals.
- 2) Mortgage broker referrals.
- 3) Title company referrals.
- 4) Bankruptcy attorney referrals.
- 5) Go to the courthouse and find the new foreclosure leads. Take the list of new foreclosure lawsuits and market to those people telling them you buy houses.
- 6) Postcards marketing to the N.O.D. (notice of default) list.
- 7) Yellow letter marketing to the N.O.D. (notice of default) list.
- 8) Direct mail marketing to the Chapter 7 discharge, dismissal and relief from stay list.

So that's my list of most common mistakes. Please take each point into careful consideration and know that if you make a mistake, it's okay. You just don't want to make too many. Get out and get your hands dirty. Learn the business by doing it, and then once you understand what needs to be done, outsource the basic but essential tasks to someone else. This will free your time to focus on those areas of the business that need your attention to grow.

Short sales can be a great way to make money in real estate investing. But there is no wealth without work. Follow the suggestions above and you'll be on your way to a great start!