Some Helpful Real Estate Investment Articles

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Rob Barney, President of DHLC Investments, Inc. has been involved with real estate and financing since 1998 when he bought his first investment property. Since then Rob has become a rehabber, landlord, speaker, mentor and Hard Money Lender. Rob has been asked to write articles on various Real Estate Investing topics which have been published on the web's leading Real Estate Investing sites.

DHLC Investments, Inc. provides Real Estate Investors access to Hard Asset Capital and DHLC's client list includes many of the top real estate investors and loan officers in the Dallas area. Hard Asset Capital loans are those loans funded to the borrower based solely upon adequately collateralizing the loan with purchased real estate property. DHLC provides Hard Money Loans throughout Texas and Colorado.

Bird-Dogging 101

Definitions

A "Bird-Dog" is someone who identifies a good Real Estate investment opportunity and puts the property under contract with the sole intent of assigning that contract for a fee to a rehabber to repair and resell. For the purpose of this article the term Bird-dogging and flipping will mean the SAME thing.

The Scenario:

I believe that birddogs are getting as frustrated with the current state of the Real Estate investment market in the DFW area as many rehabbers are. I understand that many of you are professionals who take the time to look at a deal from the perspective of the rehabber and only put a contract on a house that has enough room, after your assignment fee, repairs, holding costs and selling costs, for the rehabber to make a decent profit (typically 15 - 20% of sales price).

I also realize that many of you are frustrated because you will assign a good contract to a "rehabber" who tells you they can close who then turns around and assigns your contract to someone else who may or may not be able to close. The process takes the profit out of the deal so that if it ever is shown to a "real" rehabber...there is nothing left in it for them... no one closes, you don't get paid, and you wasted your time.

Another problem that I see happening all too often is that there are new birddogs that don't have a good understanding of this business yet are out-bidding the "pros" for the property without taking into account all of the cost associated with rehabbing/selling the property. Then, what could have been a good deal for all ends up either not closing, because a Hard Money Lender will not fund enough or a "real" rehabber will pass on it for the same reasons listed in the preceding paragraph. NO PROFIT!

So I want to try again to help the new birddogs and those "pros" that are getting frustrated because their contracts are not closing, see what they can do differently to ensure that most if not all of the properties they place under contract will be assigned and will close.
Rob's Rules to Bird-dogging:

1. Treat this like a real business: This means you may have to make an investment in your business in order to make money. If you want to earn a $2000 - $3000 (or more) assignment fee you had better do the leg work required for a rehabber to quickly evaluate your deal.

2. You need to be able to estimate repairs accurately, (within 20%). If you can't, then how will you know if a deal IS a deal?

3. You need to know how to "comp" a deal. This does not mean that you grab the other For Sale listings in the neighborhood and call those prices "comps". It means you will need to use the Dealinator or other service to see what the recent SOLD Comps in the subdivision are and what is the average Days On Market (DOM).

Use the Lowest or Average selling price per square foot when you estimate the selling price to see if there is enough room in the deal for everyone. Please don't use the top end as "Real" Rehabbers will want to sell the property fast, at a discount, since they are often paying Hard Money Loan rates. That means they will look at the potential selling price based upon the Low to Avg. Selling price of the Comps.

4. Understand how Holding Cost affect a deal: If I am buying the house for $100,000 plus your $2500 assignment fee + $7500 in repairs that means I may be borrowing up to $110,000 from a Hard Money Lender. At 14% Annual Interest that house costs me $1283.33 every month I own it. This is why the DOM is so important for you to know when you are evaluating a deal. You need to know that if the Avg. DOM is 90 days....your rehabber will need to spend $3850 in loan payments (using the above example). That amount needs to be calculated in the deal.

5. Only assign your contract to a "REAL" Rehabber not to someone who is going to flip it again. If it gets flipped again the odds are good that the deal will not close and you have wasted your time.

6. Use a TREC contract. WHY? Because the rehabber will probably need to borrow the funds to purchase/repair the property and the Hard Money Lender/Bank will want to see a State approved Real Estate contract.

Treat this like a business and don't try to assign something that no one wants to close on. I have spoken to many fellow "REAL" Rehabbers, people that can and do actually close on deals every week/month, and they agree that if you want me/us to pay you $2000 - $3000 dollars for finding a deal then I/we want you to only bring us deals worth looking at otherwise we have both wasted our time. All we are asking of you is that you spend an hour or less doing your "Due Diligence" before you put a contract on a house that you want to later assign.

A Typical Deal By The Numbers

This is how I and many "real" Rehabbers look at a deal;
Max Selling Price [1]: $150,000.00
Acquisition Cost [2]: - $7,500.00
Repairs (estimated) : - $9,000.00
Four month Average. Hold Cost: -$4,900.00
Min Profit (15%): - $22,500.00
Misc. expenses (5%): - $7,500.00
Cost to Sell (5%) [3]: - $7,500.00
Max Purchase Price: $91,100.00
Additional (Not covered by loan) expenses: $7,500.00

[1] Based on selling it fast and based on the low to avg. selling price/sqft.
[2] Title work, Dwelling Ins., Loan Fees & assignment fees
[3] Listing with someone like MyCastle.com for 3% plus $500, Closing costs, etc.

FYI: Max Hard Money Loan = $105,000 based on a max of 70% ARV

If you are not doing this math on every deal you are considering putting under contract then you are not earning your assignment fee. This is a business. Like every business you are only paid when you sell your product or service. Make sure you sell every one of your deals by only doing deals that can be bought by a real rehabber.

I don't want to insult anyone or hurt anyone's feelings. You may not agree with what I have said. But believe me when I tell you, if you want to sell a deal to me or 99% of the other "real" rehabbers that can close...you will need to keep what I have said in mind. I do this same math on EVERY deal I look at buying...if it doesn't work...I walk!

Why you should use a Buyer's Agent

One of the biggest mistakes new and veteran RE Investors make is to purchase a listed property without the use of a Buyers Agent who is experienced in working with RE Investors. Now any agent can be a Buyers Agent but unless they understand how we buy and sell property they will not be able to guide you through the many pitfalls and will cause unnecessary paperwork and hassle.

Many investors incorrectly believe that if they don’t use a Buyers’ Agent they can get the seller to give “them” a 3% discount in-lieu of paying the full 6% to the listing agent. This is almost ALWAYS wrong. A seller enters into a listing agreement with the listing broker for an agreed upon amount or percentage. Once the property is listed in MLS that fee is shared with the agent, if any, that sells the property. If the listing agent sells the property…they keep 100%. That means not only do you NOT get a discount equal to the shared fee, but you also are letting the seller have an advantage in the negotiations.

What exactly is a RE Investors Buyer Agent?
Buyers' Agents are agents who are experienced in and often times specialize in working on investment related transactions and retained by REI’s to help them find the perfect house and are paid by the sellers / builders / listing agents.

Here's an example. Let’s say that you are in the market to buy a very specific car (i.e. a Black Chevrolet Suburban 4x4 with tan leather interior) and walk into a local Chevrolet dealership to find one. Guess who those "friendly" sales people work for? The dealer, of course. They're all trying to get you to buy using every pressure tactic in the book. Do you feel comfortable? Of course not.

Now, what if you could hire an independent vehicle consultant to find you that exact vehicle from amongst all the regional Chevrolet dealerships. Someone to handle all of the negotiation, at your direction. Someone who knows the market and the costs associated with buying this vehicle as well as how long a dealer typically takes to sell this car. All of this info is vital to you getting the best deal To get all of this at NO COST TO YOU, you simply sign an agreement with that individual that outlines the following obligations:

* That the consultant is to look out for YOUR BEST INTEREST (The are legally bound to do so)
* You agree to allow your consultant to paid a pre determined finders fee from the dealer from whom YOU decide to buy
* That the consultant will help you find the BEST DEAL. Performance based compensation. If they don’t find you what you want…they don’t get paid.
* You agree to work exclusively with that consultant. (This helps ensure that there is no pressure on you to buy because that consultant knows that he / she will eventually be rewarded for their effort to help you)

* You agree to only buy from dealerships that will pay your sales person a finders fee
Now substitute the car for a house and the consultant person for a Real Estate Investors Buyer’s Agent and you've accomplished the SAME thing, which in real estate is known as BUYER AGENCY.

Services that Buyers’ Agents offer to their clients:

*Reliable advice and information is perhaps the key factor in making a "good decision". As your Buyer Agent, they will provide you info such as, but not necessarily limited to the following:

* the original purchase price of the house
* evaluating improvements that the sellers may have made to the house
* comparative market analysis for similar houses in the neighborhood
* the average closing help paid by sellers of other similar houses in the neighborhood
* the average drop from list price to sold price
* how many days the property has been on the market for sale
* the co-relation between tax assessed value and market value
* computerized what if scenarios on spreadsheets to allow you to make sound financial decisions
* introduction to reliable mortgage lenders, home inspectors, settlement attorneys etc.
* you worry about finding the PERFECT house – they will help you take care of all the small details

How exactly does a REI Buyer’s Agent get compensated?

Whenever a house is listed with a brokerage firm, the seller of that house (whether it is a new house or an existing resale house) agrees to pay the LISTING FIRM a set fee. The listing firm then enters that listing into the MLS database and agrees to pay a percentage of the final sales price to any other REALTOR from any other listing firm should they produce a buyer for that house. This way, brokerages get to share one another's listings and can cross sell thus making it easier to sell the property. Only a very small portion of homes on the marketplace do NOT want to pay REALTORS. These include small or not so reputable builders who do not want REALTORS advising their buyer clients and for sale by owners (who're typically priced too high).
I can highly recommend the use of a Real Estate Investors Buyer’s Agent for REIs of ALL experience levels. Be sure that you select one with experience in Real Estate Investment transactions. There are many of these folks out there.

Who should you call?

One such specialist is Tim Lansford. **You can reach Tim at 214-356-9663**. Tim works almost exclusively with Real Estate Investors.

Hard Money Loans vs. Conventional Loans

There are a lot of misconceptions regarding Hard Money Loans and Hard Money Lenders (HMLs). Most of the confusion surrounds the differences between conventional mortgages and HMLs. I wanted to take a moment and try to answer many of the general Frequently Asked Questions as well as to compare a HML to a Conventional non-owner occupied investor loan.

Frequently Asked HML Questions

How does the program work?

HMLs provide Real Estate Investors access to asset based capital. We can fund quickly, typically within 72 hours of receiving the final docs from the Title Company. Hard Money is available for adequately collateralized loans on single-family residential houses and other Real Property including commercial projects.

What is the interest rate?

The interest rate depends upon the Lender. The rate will range from 14% interest only to 18% interest only annual interest rate payable monthly in most cases.

What Loan-to-Value are HMLs looking for?

Typically a loan does not exceed 70% of the after-repaired-value (ARV).

How long is the loan for?

HMLs typically write the notes from 6 months to 12 months depending on the Lender and your needs.

What are the costs?

Costs vary depending on which Lender you use. All loans will require at-least a Title Policy, Vacant Dwelling Insurance, Inspection, "As-Is" Appraisal & Flood Certificate. Most require origination points.

Can I get repair money?

Yes. HMLs can fund repairs. HMLs require a "Draw Request" form to be filled out to identify the completed repairs to the property, Copies of the invoices from the vendors. Then, we will pay you once the work is inspected-HMLs do not pay in advance for any work.

Does my credit matter?

Yes and no. For the most part, HMLs look at the value of the property after it is repaired, how much you are paying for it, and how much the repairs will cost to determine how much we will lend. In some cases, with your consent some HMLs may need to checkout your credit history.

How do you decide how much to loan?

Typical loans range from $25,000 to $1,000,000: All loans are considered on a case-by-case basis. Each HML has their own criteria.

Do HMLs need an appraisal?

Yes, HMLs require "as-is" and "as-repaired appraisals".

Do HMLs require inspections?

Yes, HMLs require inspections including the interior before funding and before a repair draw to ensure the work is completed in a satisfactory manner.

Do I need to put any money down?

In most cases, Yes. Most HMLs want to ensure that you have enough resources to finish the repairs and cover the costs of the loan plus any surprises. Therefore most HMLs require that origination/discount points and other required items be paid at or before closing. We are confident that if you cannot afford to close you typically cannot afford to take out this type of loan.

How much will my payments be?

To figure your monthly payment simply, multiply the rate by the loan amount and divide that number by 12.

Will HMLs finance commercial properties?

Yes, many HMLs will on a case-by-case basis finance commercial properties and then only if the loan is secured by improved real property such as the building and land.

Will HMLs finance apartment buildings?

Yes, many HMLs finance apartment buildings however understand that it will take us longer to get our due diligence done.

Do HMLs allow interest to be deferred to the end of the loan?

Some HMLs do. Most however have interest payable monthly. Again, we are confident that if you cannot afford to make monthly interest payments you typically cannot afford to take out this type of loan.

How do HMLs compare to a traditional non-owner occupied investor loan?

You might be surprised how competitive HMLs really are. Take a look at this comparison;

Comparison Matrix	DHLC's Hard Money	Traditional Lender/Mort. Co.
Time to Close	1 - 2 weeks	4- 6 weeks
Monthly Payment ($100k loan)	$1166.66 @ 14% I/O	$1098.00 @ 7% + MI
Credit Qualifications	None - up to 70% of ARV	Yes - Varies
Cost to Obtain Loan	5%	3% - 6%(Incl. Orig. Fees & SRP)
Pre-Payment	Yes - 3 mo. min	Yes - Up to 2 years

Final Analysis

In many cases an HML can be obtained faster and easier then a conventional loan and while in almost all cases the amount you can borrow from a HML exceeds the amount you can qualify for from a convention lender the cost difference is minimal.

HMLs are not for everyone and every HML has a different program and qualification process. However if you need fast access to capital for REI then a HML may be your new best friend.

Should YOU choose the Title Co when purchasing a property?

One of the most common misconceptions out there is that seller ALWAYS gets to choose the title co since he/she is paying for the title policy. In some case, REOs and HUDs this is true. However as the buyer, when you submit a contract/offer, YOU have the right and opportunity to tell them what title company YOU want to close the transaction with.

Why is this a big deal, aren't most title companies the same? NO! They are not! As a lender I have to deal with the title company listed on the contract and I can tell you all title companies are NOT created equal. I have 4 borrowers ready to close who have been ready to do so for several days. We are STILL waiting on title commitments that were requested WEEKS ago. Unfortunately it is out of our hands how fast the title companies turn the title commitments around....they are in control at this point. So what do you do you ask?

The BEST thing to do is to ask your lender what title company THEY recommend. As a lender I have several "PREFERRED" title companies that I recommend to buyers that do not know where they want to close. Your lender knows what title companies work best and which ones give them, and by extension, you, the best and fastest service. The title companies take care of their best client's first. It is a fact of life. That is why many REOs and HUD mandate the use of their preferred title company.

If you want to ensure a fast closing with little if any surprises then ask your lender, before you write up a contract, who they prefer to close with. It will save you time, money and stress.

I recommend the following Title Company:

LandAmerica Commonwealth Title of Dallas
Gaylene Rogers Lonergan, Esq.
12801 North Central Expwy
Ste 150
Dallas TX 75243
Phone: (214) 503-8628
Fax: (214) 503-8752
grogers@lonerganlaw.com

Get a Home Warranty when you buy residential property

I don't know why more rehabbers do not ask the Sellers to provide a Home Warranty. This costs the seller less than $350 and can save you a ton of money. In-fact I would suggest getting the seller to agree to the sales price then tell them you will pay $350.00 more but they have to buy a Home Warranty (stipulated on TREC contract). Why? Because if the seller provides the home warranty it is a.) In force immediately b.) FULLY transferable during the term (if paid in full). Otherwise you have to wait for 30 days before your 1st claim.

How does a Home Warranty work? You/the Seller pay the year’s premium @ closing then a $55 - $65 service fee when you have a problem. When you are buying houses that do not have electricity turned on this can save your $$$$ on HVAC problems. I bought a house that had elec. turned on when inspected but 2 weeks after close, during rehab, the compressor died. What could have been a $1700+ repair bill cost me only $55 + $200 for disposal. Savings: $1200.00 including the price of the warranty.

Hopefully this tip can save you some money on your next rehab.

How to ensure a fast easy closing with your Hard Money Lender

Every Real Estate Investor (REI) wants to close as soon as possible but unless you help the process along by doing the simple tasks required by your Hard Money Lender (HML) and the title company you are almost guaranteed to miss your closing date. A real estate transaction closing is quite simple and the better you understand it the more you can impact and even influence the closing itself. Let's start by looking at the four main parties to a real estate closing.

1.) The Buyer - You
2.) The Seller
3.) The Title Company – Closer
4.) The Lender – in this example a Hard Money lender (HML)

Each of these parties have varying degrees of influence on a typical closing.

The Buyer (you) has most of the responsibility for producing all of the required items needed to close a loan. The buyer also is 100% responsible if something bad happens. I know many of you think that the lender, seller or even the Title Co. can be at fault. If a closing does not happen it is the fault of the buyer. Why? Because as the buyer, you should be on-top of the transaction and be ready to step in and find a solution if a problem arises. The buyer is the ONLY party that has the motivation, access and responsibility to ensure that all problems are solved and that the transaction closes. Let me repeat this… The buyer is the ONLY party that has the motivation, access and responsibility to ensure that all problems are solved and that the transaction closes.

The Seller is simply along for the ride. Once they have the property under contract to sell their sole responsibility is to show up at closing, accept a back-up contract or to give you an extension if you do not close on time.

The Title Company – Closer will be working closely with you and your lender to bring the transaction to a successful close. However it is important to remember that there are other transactions being closed at the same title company and by the same closer so it is the responsibility of the you, the Buyer, to ensure that the title company is moving every forward in a timely manner. Remember that a title company's busiest time is from the 20th of the month to the end of the month. If you are trying to close your loan during this time period be aware that the title company may have problems finding a time to get you in to close. As long as you provide everything you are required to have by the lender into the title co in a timely manner your loan should close as scheduled on the contract. The lender will coordinate with the title company to close the transaction as required by the contract.

The Lender, in this example a Hard Money Lender, will drive the closing of your transaction and will work closely with you to get all of the items required to close the loan in a timely manner. It is important to note that ALL of the required items MUST be received by your lender as-soon-as-possible to ensure a smooth closing that happens on or before the closing date on the contract. Your lender will NOT close a loan until they have everything that you are required to provide. Most lenders require everything to be received by underwriting at least 72 hours prior to closing. Don't expect to deliver requested items to the lender on the day of closing or even the day before and still close as scheduled. A lender will not draw loan docs until they have a complete loan package. Docs take 24 to 48 hours to be drawn, approved and sent to the title company. The title company itself needs several hours to prepare a HUD-1 for the lender to approve prior to closing.

As mentioned in earlier in the article that you the Buyer have the greatest responsibility and influence in a typical transaction. If you get all the required items to the Lender and the Title Company in a time manner and stay on-top of the closing process you can almost guarantee a smooth closing every time. If you simply kick-back and wait for the transaction to close and plan on providing the required info when you "get around to it" plan on having a lot of missed closings. A smooth transaction with a Hard Money Lender should take 2 weeks from application to closing. You decide what type of closing you want.

A bargain is worth just as much as you paid for it!

My grandfather used to always tell me

A bargain is worth just as much as you paid for it!

What does this mean? It means that taking short cuts and using the lowest bid may cost you more in the long run.

Every time I review a Hard Money Loan application I also review the inspection reports, scope of work and repair bids as part of my due diligence. I am constantly amazed with the small amount that rehabbers are willing to invest in repairs on a house that they want to sell for top dollar. Regardless of the value of the home, the lowest bid may save you hundreds of dollars in repair costs but cost you THOUSANDS when you are ready to sell the house.

All of us are guilty of this. I am like all of you. I want to get the best price for the best work I can afford. I don't want to over-rehab a house or worse, under-rehab it. A few months ago I was talking to my GC about the countertops I was having installed in a home that will retail for $330k. We were discussing the option of tiling over the existing laminate countertops instead of installing new granite tops to save $1000.00 or more. Now $1000.00 is a lot of money on a $30k job. However the more we talked it over the more I came to realize that while tile is a "high quality" alternative, and while it would have saved me some money, it probably would have cost me $5k or more on the sales price due to longer hold time or lower sales price due to perception of value. At that price people are expecting granite counter tops.

Every day rehabbers are faced with this same decision regarding roof or foundation repair; painting and plumbing. More often then not they sacrifice quality for a few bucks. Now I know that everyone is working on tight budgets, heck I am typically "funding" those repairs. However as a lender I worry if the borrower is taking the low bid because more often than not it will bite them in the behind when they are ready to sell.

FOR EXAMPLE:
Your project needs foundation work. Should you have the GC or lowest bidder jack up the house and put in a couple of piers or should you pay 20% more to get a major foundation company who will give a "lifetime transferable" warranty? Well when it comes time to sell and the buyers asks about the foundation (since their inspector noticed signs of repairs) what do you think that they will want to hear? That it has a lifetime warranty or not? If not, I can tell you even if they love the house they will want it discounted to cover the "potential" foundation problems that are not going to be covered since there is no warranty.

It is not just foundation work either. Hiring the lowest bidding GC sets up other problems. Many "low-balling" GC's make those bids because the NEED the work. Why?

Because they have other jobs that they are running out of money on and need your deposit so they can finish up that job before starting on yours. Or they are moving crews from one job to the next to try to work a little on each job. I have seen this happen many times and all it does is cost you time and money, not to mention the dreaded "overruns". A good reputable GC will give you a "not to exceed bid" and stand behind it even if it "hurts" because that is how they run their business. This is why I always go with a reputable GC. Even though their bid may "APPEAR" higher at first glance when compared against a "low-baller" I have the knowledge of knowing that the job will be completed ON-TIME and WITHIN BUDGET and WARRANTEED for 1 year! No surprises, no delays and a quality of work that will maximize the resale value! That is what everyone needs to factor into their comparisons; will "saving" 20% on the cost of repairs cost me 5% of the resale value?

We are all in this game to make the most amount of money we can for the least amount of capital. (Maximizing ROI). I know from experience that my grandfather was correct when he said, "A bargain is worth just about as much as you paid for it"
Good luck and may all your investments be profitable!