

## CHAPTER 1

# Wholesaling Overview

## What's in It for You?

*Nothing can be loved or hated unless it is first known.*

—LEONARDO DAVINCI

Over 80 percent of Americans do not have what they consider to be their dream job. Worse, many Americans take jobs they despise just so that they can make ends meet. That's an unfortunate way to live life. And it's an unnecessary one. Real estate investing can be a way out of this dilemma for people who are willing to put in the necessary time to educate themselves. Even if you aren't interested in investing in real estate on a full-time basis, it still has the power to be a means to an end.

I can't even begin to imagine what my life would be like if I hadn't made the decision to pick up that first real estate investing book over a decade ago. Real estate is my life's work, and I take great pride in calling myself a real estate investor. Even if investing isn't your dream job, it can give you the financial freedom you need to spend more time pursuing your higher calling. However you look at it, you have something to gain from learning to invest in real estate as a wholesaler.

### **THE BENEFITS OF LEARNING HOW TO WHOLESALE REAL ESTATE**

As you are probably aware, there are numerous facets within the real estate investing industry. There are also benefits and risks associated with each of these facets, or *niches*, of real estate.

*Wholesaling* is a short-term real estate investment strategy that can be utilized to create quick profits. Essentially, you are finding properties that can be purchased at significantly below market value that you will control through the use of a *purchase*

*and sale agreement.* Then while in contract, or shortly after you close on the property, you will locate a buyer who is willing to purchase your contract, or the property, from you for a profit.

Many investors focus only on wholesaling. Likewise, you will find wholesalers in every local real estate market around the country. However, most real estate investors who wholesale also invest in real estate in other ways as well. The key is to understand the benefits of wholesaling, how to perform wholesale transactions, and where it fits in your overall real estate wealth-building plan. Then you can choose what properties will be best to wholesale versus utilizing other exit strategies.

### **Benefit #1: Profits Can Be Quick**

One of the reasons wholesaling is so attractive to many new investors is due to the speed with which you can find a property, put it under contract, find a buyer, and earn a profit from the transaction. I don't know of any quicker way to make a profit in real estate than wholesaling.

Typically, residential transactions take from three to six weeks to complete once you have the property under contract. Of course, there are deals that will happen quicker; however, they are the exception rather than the norm. Either way, you will not find any other facet of real estate where you can earn a profit in this short of a time period.

This makes it ideal for people who are relatively new to investing in real estate. It also makes it a perfect strategy for anybody who is working a full-time job, but still wants to get started and dip a toe in the market.

Once you have marketing campaigns in place, the knowledge to complete complicated transactions, and systems to help you evaluate deals and manage all the information, the transactions can happen relatively quickly. Obviously, the more knowledge you acquire and the better your systems are the less time it will take you and the more money you will make per hour committed.

### **Benefit #2: You Can Minimize Your Risk**

Every facet of real estate investing has risk, including wholesaling. You can waste time on deals that never come to fruition, you can get sued, and you could lose money. Unfortunately, there is no "risk-free" way to invest in real estate, like all investment vehicles. Real estate investing always involves some level of risk; however, you can minimize that risk significantly. Your job as an investor is to always understand those risks and try to minimize them in any way you can.

Wholesaling is the only type of real estate transaction where you are typically lining up your buyer while you are still in contract to purchase the property. In fact, when you learn how to fill out a purchase and sale agreement correctly, you can minimize your risk by including contingency clauses in the contract. You can also minimize your risk by limiting the size of your deposit. Thus, with a relatively small deposit you can control a property worth significantly more for an agreed-upon period of time.

Wholesaling is also less susceptible to local market risk. Of course, while you are in contract the property values could go down, but typically you don't see big swings in the market value of real estate in timelines as short as three to six weeks.

### **Benefit #3: Having Bad Credit Is Not a Large Limiting Factor**

Having bad credit is a limiting factor when it comes to obtaining bank financing for a piece of property. However, an unworthy credit score should by no means deter you from wholesaling. As a wholesaler, having a good credit history can help you, but it is not a necessity. If you have horrible credit, it may cost you a few deals during the course of a year by limiting the number of viable exit strategies you have if you have to actually close on the property. However, if you are focused primarily on selling contracts, it will not be a big factor.

### **Benefit #4: You Can Utilize Other People's Money**

As a wholesaler there are two primary ways you can close a transaction:

1. You can sell your purchase contract, often referred to as *assigning* the contract.
2. You can sell the property shortly after you buy it. This strategy is often referred to as a *double closing*, or a *back-to-back closing*, or a *simultaneous closing*.

When you sell or *assign* the contract, you are not selling the property itself. You are actually selling the purchase contract to another buyer for a profit. In this scenario, discussed in detail in later chapters, the buyer you find actually steps into your shoes and buys the property on the favorable terms you negotiated. The buyer you find will also close on the property using his or her funds. This aspect of wholesaling is perfect for investors who are looking for profitable opportunities with relatively little upfront cash investment. Generally, the only money needed to complete this type transaction is a down payment used to secure the contract with the seller. This technique can also yield very high returns in short time periods.

The second way you can wholesale a property is when you *double close*. In a double-closing situation you will first have to close on the property yourself, using your funds. Of course, the money you use can come from a variety of different sources, including private lenders, hard-money lenders, transactional lenders, and banks, just to name a few.

If you have little money to invest in real estate at this time, private lenders are going to be your best option for the short-term funding needed for wholesale deals that you will be double closing. The great thing about working with private lenders is that many private lenders who understand their money is only being utilized on a short-term basis will be more likely to lend at very high loan-to-value ratios, knowing their money will be returned shortly after closing. Likewise, when you work with private lenders interest rates and points are completely negotiable.

### **Benefit #5: Time Freedom**

Over the past decade of investing in real estate there have been very few days where I rolled out of bed not looking forward to what my day would bring. Real estate investing is not easy; however, I truly believe it is a heck of a lot easier and financially more rewarding than working 40 years of your life for a corporation, the government, or someone else. Working a nine-to-five job swapping time for money is incredibly unfulfilling for many people. After the futility of it finally hits home, many people realize that being your own boss may not be such a bad thing after all.

Having time freedom and total control of your schedule is an amazingly rewarding feeling. I personally feel incredibly blessed to control my schedule because it allows me to spend time with the people I care about most.

Real estate investing, like any profession, can become very involved no matter what facet you specialize in. However, wholesaling requires the least commitment. You are not rehabbing or redeveloping the property and you are not dealing with tenants. So if you are the type of person who loves to travel, or take extended periods of time off, then wholesaling will be right up your alley.

### **Benefit #6: It Is Challenging, and Never Boring**

Obviously, wholesaling can be financially rewarding. However, I believe in order to live a truly fulfilled life you have to be passionate about what you do on a daily basis. I also believe that as humans we seek challenge and through those challenges we discover things about ourselves we never would have discovered had we not pushed ourselves outside of our comfort zone.

One of the reasons I love wholesaling is because it is challenging and no two deals are alike due to the fact that every property and every person involved in the transaction is unique. Thus, you will continually have to think on your feet in order to succeed.

I have also found wholesaling to be extremely exciting, especially considering a large portion of your personal time will be spent hunting, evaluating, negotiating, and closing deals. I have always found chasing deals, or “the hunt,” to be one of the most exciting parts of wholesaling and investing in real estate. There is something intrinsically rewarding about finding hidden opportunities that other people have overlooked.

If you like working with different kinds of people, or shopping for bargains, or even chasing the opposite sex, then I truly believe you will draw a great deal of pleasure from wholesaling real estate. It is a feeling that I just can't explain but that you will relate to when you close your first big deal.

### **Benefit #7: Wholesaling Is a Gateway to Other Real Estate Niches**

Wholesaling is also a great way to learn the transactional side of real estate investing. From learning how to find properties outside of traditional channels, to evaluating deals, to learning how to structure contracts, to discounting liens, to learning how to perform double closings, you will learn a great deal about how to navigate through complicated multiparty transactions. When you move into other facets of real estate that have the potential for a larger upside this knowledge will prove to be invaluable.

For example, Steve Hall, who is one of our coaching students from California, started out working with primarily single-family residential properties. With our help, and his determination, he grew a very successful residential real estate investment company. As his knowledge of the business grew with each subsequent transaction he felt comfortable enough to venture into larger commercial real estate investments. On one of Steve's most recent deals he purchased a large hotel in Savannah, Georgia, and is in the middle of renovating and repositioning the property and is poised to make a very substantial profit from the deal. As you can imagine, wholesaling can be a great way to build your knowledge base and confidence and can propel you into even bigger ventures.

## **CONCLUSION**

There are no statistics or proof backing this statement, but I have always had a gut feeling that wholesaling and investing in real estate actually makes you more attractive.

I also believe real estate investors are sexier, better lovers, and generally nicer people than any other type of investor.

In all sincerity, success in real estate is a lot like working out. You can't expect to spend a week in the gym and be fit for life. Likewise, you can't just read one book and expect to be an expert.

Keep accumulating knowledge. The market is mercurial, legislation changes constantly, technology evolves rapidly, and new opportunities present themselves every single day. Commit to spending a few hours each week educating yourself on anything and everything related to investing in real estate.

I highly recommend you also find a mentor, someone with a successful track record, who can help coach and guide you. Your probability for financial success will increase dramatically when you have someone who is looking at your investing efforts from the outside. I believe a coach can see what you sometimes can't and can provide you with strategic advice that will save you tremendous amounts of time, help you avoid costly mistakes, and help you reach your goals in a shorter time frame.

Ultimately, success comes from staying on top of the game. This means knowing your local real estate market backwards and forwards. The next chapter will give you a strategy for doing exactly that.