Real Estate Investing Overview

Center Street Lending™
Smarter Loans for Residential Investors

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Getting Started

Wholesaling: Wholesaling is a great way to get started if you are short on experience and/or funds. With wholesaling, your objective is to enter into purchase contracts at an attractive enough purchase price that you can assign your purchase contract to someone who is willing to pay you a premium to your contract purchase amount for the opportunity to purchase the property.

Partnering: Partnering with an experienced fix/flip investor is a great way to learn the business with less risk. Your partner will likely want to share in any profits but the potential savings of avoiding snafus may be more than worth any shared profits.

Fix and Flipping: The potential profits of going it alone and purchasing, repairing and reselling your own investment property are the greatest, but so are the potential risks.

How to Obtain the Money to Flip Houses

Do you want to start flipping houses but don't know how you are going to access the money you need? Check out these options to find the cash to begin flipping houses:

Home Equity Loan: You can utilize the equity in your primary residence to flip houses. If you don't have enough equity in your home to purchase an investment property outright you can leverage your home equity into buying one, or more deals with a traditional or private money lender.

Credit Cards: Be cautious when using this method because it's easy to get over extended. If used responsibly, credit cards are an available option for those with limited cash to use as equity for an investment property.

Your IRA: You can use your own IRA money to invest in real estate. It's called a self-directed IRA and may be the most attractive finance source for certain investors. Make sure you consult your accountant, lawyer, and your financial planner before you use your IRA. They will be able to tell you if there are any kinds of early withdrawal penalties that need to be avoided.

Private Money Lenders: Private money loans are non-traditional and generally for the purpose of funding a real estate transaction. They are ideal for fix/flip projects. These loans are typically short term, with an easier qualifying process, more flexible and include a quick processing time.

Traditional Lenders: While most banks don't offer short-term loans for fix/flip properties, it is worth talking with a loan officer at your bank to see if they have a program that fits your needs. While the restrictions and documentation will be the most onerous, the pricing may be a good option.

Making your house flipping dreams a reality takes a lot of elbow grease, money, and know-how. Since private money lenders are the most frequently used financing source for fix/flip investors, we have outlined why you should consider working with a private money lender.

What is a Private Money Loan?

Not all private money lenders are alike. Private money lenders are usually individuals or private companies who provide 6-12-month loans. They represent a significant percentage of the financing available for real estate investors needing short-term access to funds.

Private money lenders have a variety of different rates, fees, terms and structures and can be an invaluable source of capital for real estate investors to finance their investment properties.

Why use a private money loan?

Residential investors, such as fix/flip and rental investors, frequently use private money loans to fund their purchases because they can often borrow up to 80% of the purchase price in a short period of time with limited loan underwriting requirements. If a property can be purchased, improved, and resold quickly at an attractive profit, and standard financing is not available or cannot be obtained fast enough, then a private money loan may make sense. Some investors use private money loans to purchase a property, improve the property, and then get a new loan (based on the value of the improved property) from a conventional lender, such as a bank, to pay off the private money lender.

In addition, private money lenders are often willing to provide high loan amounts relative to the purchase price of a property and improvements, which decreases the amount of equity required for investors. With less equity invested in each deal, an investor using a private money lender can purchase more investment properties than they could if they used conventional financing. If the investor utilizes the retained equity to invest in more properties that earn a higher return than the cost of the private money loan, then it is economically attractive to use private money financing. For example, let's assume an investor earns 25% per year on their equity and could get a 50% loan to cost from a bank at 8% or an 80% loan to cost from a private money lender at 14%. The average cost of capital (equity plus debt) using the bank loan would be 16.5% ((25%*50%)+(8%*50%)) versus 16.2% ((25%*20%)+(14%*80%)) using a private money loan. If an investor earns more than 25% per year on their equity than the benefits of using a private money loan are that much higher.

Due to the simplicity, quick funding and loan terms, some investors who could otherwise get traditional financing still use private money loans due to time constraints or the desire to obtain a no-hassle loan.

How do I get a Private Money Loan?

There are numerous sources for private money loans with most providers typically covering a certain geographic area. A little bit of research is typically necessary to determine which individuals or companies have adequate resources to fund your loan and are not simply trying to broker your deal. Using some of the online residential investor forums can be helpful in identifying reputable lenders that have their own funds to lend. One great resource is Center Street Lending where you can get a rapid funding with flexible underwriting.

Most importantly, make certain you are dealing with a lender that will work with you if you have issues and not a predatory lender with hidden fees that will try to capitalize on any problems that arise.

Determining Your Fix/Flip Cost and Profit

Every house and its condition are different, so it is difficult to give a specific formula for what costs are involved in purchasing, fixing, and flipping a specific home. The categories include hard costs, such as the purchase price and rehab costs as well as soft costs, such as borrowing costs, insurance, selling costs and escrow closing costs.

Rehab costs will vary widely based upon how much work needs to be done and what level of finishes will be installed. Typically, the properties that offer the highest potential profit are also the ones needing the most repairs/improvements which means they also pose the greatest potential for overruns, so they may best be pursued only by experienced fix/flippers.

In general, try to keep the costs to purchase and repair equal to 75% or less than the expected sale price of the home after repairs. This will leave 15% for other costs (selling 6%, closing 2%, insurance/HOA/carry 1% and finance 6%) and 10% of revenues for profit.

Tips to Stay on Budget

#1: Make certain you have a detailed timeline and budget with your general contractor that includes incentives for them to complete their work on time and on budget.

#2: Make sure your general contractor has a detailed timeline and budget with all of the major subcontractors including concrete, framing, roofing, plumbing, electrical, cabinets/carpentry, and painters. Make certain the scope of work is detailed and all-inclusive to minimize cost overruns.

#3: Subcontractors work on jobs in the priority of which ones make them the most money when considering their time which is typically 50% or more of their costs. If the job is clean and ready for them when they arrive, they will stay on the job until it is done. If the job is not ready when they show up, then you stand a high chance of being put at the back of the line.

#4: Too much communication is better than too little communication. Let everyone know if timing changes. Nothing is worse than a wasted trip/day for a subcontractor.

#5: Plan for known and unknowns. Things always take longer than planned and cost more than planned so include a contingency.

#6: Choose your finishes not based on what you like, but on what will sell and the price level the market will pay for, at any price point. High-end finishes in a lower-end neighborhood are just as bad as low-end finishes in a high-end neighborhood. Both are likely to negatively impact profitability. Design and build for the market.

#7: Time is money so make certain your next steps are anticipated, instead of reactive, in order to reduce the total timeline.

#8: Pick a great realtor and try to price the completed home at a value that is attractive relative to other available properties. Homes that are initially priced too high tend to receive little interest and sit for too long which then requires a real deal (for the buyer) to finally move them. Bidding wars are the best way to get someone to pay above market.

#9: Carry costs can quickly deplete private earned profits so move finished inventory in a timely manner. Properly priced homes, assuming they were tastefully rehabbed, move quickly, overpriced homes sit and go stale.

#10: Emotions should not factor into business decisions. Better to make a small profit and move on to your next deal than hold onto unrealistic price assumptions and watch carry costs consume your profits, or worse yet your equity.

Estimating an ARV (As Repaired Value)

Realtors are helpful in establishing an expected as repaired value. Online estimation tools such as Zillow and Redfin provide great information for available properties and comparable sales, but their estimation tools do not always differentiate the truly relevant comparable properties which simply requires looking at the details of comparable properties to find the ones that closely match your property. Newly rehabbed homes can command significant premiums to older homes that have not been updated or maintained. New homes, for instance, generally command a 1%-2% premium for each year of difference to existing adjacent homes.

In general:

- Sold homes, not listed homes, are the best comparable
- Recent comparable homes are better than older ones, preferably less than 90 days
- Consider differences in size, bed/bath count, house finish, lot size and location on street in your offer price

About Center Street Lending

Established in 2010, Center Street Lending is a premier, private lender focused on residential real estate entrepreneurs. We are personally invested in each and every loan. We deliver easy transactions that are competitively priced and swiftly executed. And above all we are committed to our customers' success. Because when they succeed it's good for everyone. For more information and help on your real estate investments, **contact us at info@centerstreetlending.com or (800) 208-2976.**