



<https://www.spousesflippinghouses.com>

Hosted by: Doug & Andrea Van Soest

Episode 22 – Listener Q&A – Expensive Markets; Hard Money; How to Buy Low

Andrea: Welcome back. So today is Episode 22, and we are going to answer some of your questions today, just a few.

Doug: Yes, question and answer episode. We've been soliciting questions from you guys over the past month or so, and we've had a lot of great questions come in, usually via email. And we've been trying to answer those personally to those people, but we're going to actually go through a few of those questions on the air today because I think they'll be beneficial to most people.

Andrea: Yeah, because most of them I thought, *Man, I wish other people could see this question that has come in. I wish they could see the*

answer because I'm sure they're not the only person that is wondering about this.

Doug: Right. But before we get into that, we've had a real busy week here, and the weeks just never go exactly how you think they're going to go.

Andrea: No they don't. I don't know why I always do this, but I sit down on Sunday night and write out everything I have to do and by Tuesday, it has totally changed around.

Doug: I know. You can just throw that out the window because things or opportunities will show up all of the sudden that you need to take advantage of right now, or you need to meet with someone, and something else gets pushed back. And that's fine. It's good to be a little bit flexible because things change.

Andrea: That's also what I love about this business. I like the unpredictability of it.

Doug: True. It's never boring. You can definitely say that; it's always exciting. There's always something. But last week we mentioned how we're really not focused on getting more rehabs right now because we're dealing with some other ones and trying to get those finished up, and we're just focused on wholesaling.

That was until last night. So what happened yesterday?

Andrea: Yesterday we had a great deal in Palm Springs come across our desk, and that's just an area that we love. We have a contractor that we really like working with out there, and that plays a huge part of it I think, when we know that this will be easy because our guy out there will take care of it really fast. It's going to be really good, so we have to do this one.

Doug: And it would be one we would enjoy doing because it's just a fun rehab out there in the desert.

Andrea: Yeah, they're typically more modern, and it's just really fun. You don't get to do a lot of that out here where we live. People aren't as interested in that mid-century modern style, and they love it out in Palm Springs. So it's really fun.

Doug: So that'll be fun, so Andrea after this is hopping in the car and jetting out to Palm Springs to check out this property and make sure it's you know, what the person says it is.

Andrea: And I'll meet the contractor out there, and we're going to try to make our plan really quick. Figure out what we're going to do to it.

Doug: And then I'm headed out to Fontana today for another property that we're in escrow on, and this deal in particular just goes to show

how this business is really about people and really about relationships, most of the time. It's not always about just buying a house for a certain number, and pushing the paperwork through, and closing on it.

It may have been the case back in the foreclosure short-sale days, but today, 90 percent of the properties we buy are directly from an owner or a real person who sometimes has real problems, either with the property or just personally in their life. And we are problem-solvers in this business above everything, and if you can solve that person's problem and still buy the house at numbers that work for you, then that's a win-win. And we love doing that, and it kind of makes us happy when that situation happens.

So this particular property, the owner was pretty savvy, and he had called several investors to come take a look at his house and make an offer, and we were one of a few. And when I got there, I think I was the last one to come in. He had said: "Here's where my offers are at. Nobody has given me the \$190k that I want on this property. The first person who can give me that number, I'll sell them the house."

Andrea: And he had inherited this house, right?

Doug: Yeah, he was living there, but he had inherited the house years ago, and his sister is part-owner, and she lives out of state. So he's the other part-owner. But the guy has health problems, and he's just

really down on his luck and is just in a bad spot. So he's gotten to the point where he needs to sell this house in order to get money to live.

He literally is about of money, completely. But one of the issues, other than that, was that in order to just move out of the house and get some of his belongings out, you need money to do that, or you need family and friends around to help you. Those he doesn't have around, so he needs money.

And nobody else was willing to work with him on that. They just wanted him to close on the house, and for it to be vacant. So just through talking with him, we discovered that we could solve this problem by closing on the house and giving him time afterwards to get your things and move out.

So that was solving his problem for him, and we were able to come to that agreement to do it. So we opened escrow on the property, and then one after another, little problems just start happening that keep causing delays, things that would normally not be a problem for just about anybody else. But for example, the notary goes out to his property to have him sign paperwork and notarize the grant deed.

And well, he doesn't have any I.D. He doesn't have a driver's license, so he has to order one of those, and that takes a couple of weeks, so it kind of delays the process.

Andrea: And the problem with delaying the process was that when we signed the contract originally, he was already out of money at that point. So here and now, we're a couple of weeks into it, and he literally has nothing. Doug actually even drove over there to check up on him one day because he was just kind of worried about the guy. He had been slower in responding to escrow, and we just weren't sure what was going on with him.

And Doug pulls up to his house, and the guy is literally sitting in his house with no food, and he's got an injury to his leg that prevents him from walking to the grocery store. He had a bike that he was able to ride and go get groceries, but his bike was broken, and he's out of money.

Doug: He has no one to call.

Andrea: Yeah, and I'm so glad that Doug showed up on that day because Doug drove to the store, bought him a bike, went to the grocery store, got him groceries and a grocery store gift card. Brought all of that back to him, hoping that would help him to sustain himself until this house closes and he actually gets the money that he needs to keep going.

Doug: Yeah, so it's been kind of one thing after another, and the latest issue is that we're going to close. Great, we're right here at the closing time, but he doesn't have a bank account. So the check will be so large that if he goes to cash the check, it's going to put a five to ten day hold

on the check, which pushes him over the limit of the time we gave him to move his stuff out.

So now we're reworking that. We're going to give him longer or go help him get a bank account set up so that the money can just be wired directly to his account, something like that. So we're still solving problems, working through it, but I want to check up on him and make sure he's doing well.

And we're going to follow through, make sure he's taking care of after escrow closes and has a place, has food, is back to comfort living a little bit.

Andrea: Yeah, this was a tricky one and just one of those things that really pulls at your heartstrings. You sort of can get invested in these people as you're going through the process and buying their house, you genuinely do care about them. We want to make sure that he's okay. I don't want to just buy his house; I want to make sure he's okay.

Doug: Yeah, yeah. Most people have someone around that can help them out, but sometimes you're that person, and we've kind of realized that in this situation.

Andrea: Sometimes you're all they've got.

Doug: We're the ones who can help him out, so you know, we're doing what we can to take care of him. But that's what I'm going to be dealing with today, which is kind of cool.

Andrea: Okay, so onto our listener questions. I just want to say that I have really enjoyed receiving these emails of questions over the last couple of weeks. It has been really fun to get to know some of the people that are listening to this podcast in a more personal way, and some people have even included pictures of themselves, which is so fun just to say, "Hey, this is me and my wife. This is us, and we're doing what you're doing."

Or, "Hey, this is our family. This is who we are." And it's been really, really cool, so thank you very much for your emails and your questions. We're going to answer a couple of them right now.

Okay, so question number one: We want to get started in real estate investing, but our market is very expensive. It's a very high-end market, so should we move to a more affordable market to get started? And I first want to say that this question was asked by several people.

Doug: All right, so first of all, I would ask a couple of questions back. Number one, are you sure this is the career you want to have? I mean absolutely sure because uprooting your family, and your life, and moving to a new location to take on a venture that you haven't done

yet or haven't even started, aren't even sure you're going to like it, is that something you're willing to do or want to do?

It's one thing if you were planning to move out of the area anyway. But if this is the sole reason, because you think you can't invest in real estate where you live, then I think you should rethink that because I believe you can't.

Andrea: Yeah, I think that every market has some kind of a niche that will work. If that means driving an hour away to the suburbs of your market, that might be a better option for you to get started. In fact, we don't buy a whole lot of deals right around where we live. Most of the things that we buy are bought an hour away.

Doug: Yeah, Palm Springs is an hour and a half drive from us. And most people, I would say depending on where you live in the country, but the majority of people are going to live within an hour, hour and a half, of all kinds of markets— typically. High-end, low-end, rural, urban, most people. That's not that bad of a drive.

So I would definitely want to say, *okay, we live in a high-end market. Where is the closest market that is more affordable that we're more comfortable starting in and how far of a drive is that. Get to know that area.* You can go there two/three times a week. You don't have to go everyday.

Andrea: Or maybe you develop some kind of an equity split partnership for your first deal if you decide that you do want to go ahead and go for it in your high-end market, but you can't afford it, you're a little bit nervous maybe you partner up with somebody else that's done this before with experience. Where you bring the deal, they bring the funds, and you can learn the process as you go.

Doug: Yeah, and I mean ultimately flipping houses in a high-end market, you're probably going to be happier that you did that versus going into a low-end market.

Andrea: Oftentimes spreads are going to be bigger.

Doug: Yeah, spreads are going to be bigger. It really is essentially the same process. You're going to be dealing with different things than you would in a lower end market, but typically the reward path is going to be much greater. There's a saying out there: "Live where you want; invest where it makes sense." So I think you can apply that to wherever you live.

You don't have to flip houses right in your backyard. Locate a market you want to work in, and the important thing is get to know that market. And it doesn't have to be five minutes away, like we said. We're going an hour, hour and a half, sometimes two hours away. So just make it work.

Andrea: Okay, question number two: how easy is it to get started with a hard money lender? And also, when using a hard money lender, how much are you required to spend out-of-pocket or are you able to use the equity that you have created there in the ARV to reduce or eliminate this issue?

Doug: If you don't know what ARV is, it's the after-repaired-value. So okay, good question, the first thing I would say here is that all hard money lenders are not created equal. There are definitely different kinds of lenders out there. Hard money is kind of a loose term. It could be anything from a huge brokerage company that lends to investors, or it could be a single guy next door who is called a hard money lender because he has some money that he lends out himself.

So they're definitely not all the same. But most of them I would say, most hard money lenders, are going to want you to have some kind of skin in the game no matter how much of a discount you've got on the property. They want to know that you're financially invested in the property as well as all of your time and efforts.

But that being said, it is far easier than a traditional home loan. The application process is typically pretty simple. They may run a credit check or want to verify your funds and ask questions about your experience and things like that. They might do an appraisal; they may not.

Some of them just have an in-house appraisal type system that they do. They don't even send an appraiser out. You're typically going to pay two to four points at anywhere from 9 to 15 percent is pretty typical. And I've seen or heard at least from different areas across the country that this varies. But here locally in Southern California, you're closer to that two or three point range, and you're closer to the 9 to 12 percent probably.

Andrea: Right, and most of them will lend around 60 to 70 percent of the ARV, which is the after-repaired-value, or 70 to 80 percent of your purchase price, so keep that in mind. And then sometimes they will hold back money for repairs.

Doug: Right, so lenders have different programs. As far as the hold-back, sometimes they'll fund say 70 percent of the purchase price, so they'll want you to come in with the remaining balance. So there's your money out-of-pocket, but yet they will fund part of your rehab.

But they'll want to do it on a draw basis, like after you've completed say a third of it, they'll come out and take a look, release some of that money back to you, sort-of reimbursing you. So that can be a way to go where you're getting your money back a little bit quicker.

Andrea: And sometimes you can establish relationships with these hard money lenders. So after you've completed one or two deals with them and you've sort of proved yourself, the process will probably get

a little easier for you. Sometimes you can borrow at a higher percentage or a lower interest rate.

Doug: Yeah, they get more flexible once you've proven yourself and typically, you don't have to go through the whole long application process every time. It might just be much simpler— here's the address, here's the property. They already have all of your information. They don't have to rerun your credit. They're kind of more comfortable working with you now.

Far, far easier than a home loan, if you've been through that process recently, like from big banks out there. Much, much, much easier.

Andrea: Yeah, we do love hard money lenders. We've used them a lot. They're a great way to get started, but you will want to eventually start finding private money sources, because that can be even easier.

Doug: Yeah, that's the way to go. It's better for the people lending you money because they're getting a great return. It's easier for you, and the terms are all negotiable and flexible, so private is what you want to migrate to.

So if you're looking for hard money sources, I would go to some real estate clubs, get some referrals, talk to other investors in the area, see who they use, get online, start searching around, and definitely get quotes just like you would from a contractor. Ask the lenders their

terms. Ask how they do their process and interview two, or three, or four of them before you choose one.

Andrea: Right, okay so question number three: I am having difficulty finding properties to buy low. I have been previously buying through auctions, but I cannot increase my volume by more than six deals per year. I want to increase my volume, but I have to buy low in order to make a profit, and I live in South Orange County. Currently, I've been buying properties in LA County, so what can I do about this?

Doug: Okay, very good question, and first I would say that you are not alone. This is probably the number one struggle that most “mom and pop” investors and big bank investors as well have, finding those deals, finding more below-market properties. So you're not alone.

And I would say this is probably the number one most important, valuable skill you can develop in this business— how to get your hands on below-market deals.

Andrea: Yeah, it's so true. Because really, anybody can fix it up and do a decent job. I've seen a lot of ugly rehabs that sell just fine. This is where it's at.

Doug: This is where the money's made, on the purchase and locating these deals. This is what everybody wants, all of the investors, so it can be done. So a couple things here, first of all, you mentioned in the

question that you've been doing auctions. That's been your source of deals for the past few years.

I would say this, strategies have different seasons where they work, and there are seasons where they don't. And in my opinion right now, and we're talking about foreclosure auctions I would assume, this is not the season for foreclosure auctions.

Andrea: And the "seasons" that you're referring to really are based on the market cycle.

Doug: Yeah based on the market cycle, so currently in the cycle we're in, we're not experiencing a huge amount, in Southern California where this question came from, of foreclosures. Yes, there are still some out there but not like it was in 2009/10/11, which is when you've been purchasing properties.

Andrea: And which is when you would typically be buying great auction properties, when there are a ton of foreclosures.

Doug: Yeah. Again, sort of a supply-and-demand, there's a lot less supply of these foreclosures at the auction steps, and now you have a lot of people you're competing with down there because that's their only source as well. And you know what, it has its advantages. It's quick; it's easy; you buy a property that day.

It's highly competitive right now, and if you're looking for really below-market deals, it's going to be a struggle as you've noticed to get a consistent amount of deals at the courthouse steps right now. So I would say that season has passed for that.

Andrea: Yeah, I think it's really important to pay attention to the market cycles as it goes along because throughout every cycle, you're going to change and shift your strategy as you move through that cycle. There's going to be different ways that you're going to go about acquiring properties.

Doug: Right, and so Bruce Norris has this thing called a Deal Wheel, which is this very topic we're talking about right here. There are certain strategies that tend to work in certain cycles within the market that tend to be where you want to be trying to acquire properties during that particular time.

So in the cycle we're in now, it is direct to owner. I mean, that is the way to go for the most part as far as hard-to-acquire deals.

Andrea: And we're in California, so we're mostly speaking to where we are. There might be other areas of the country where auctions are great, but this person asking this question is also in California.

Doug: Exactly. It goes back to our point of your market. Your cycle may be different; your market may be different where you are.

Auctions may be a great source for you, and you're getting plenty of below-market deals. Great! If it's working for you, keep going.

But for this particular investor, we know Orange County and LA very well, so I would say a couple of things. You need to get serious about your acquisition strategies and really put your effort into marketing. Just like in any business, if you don't have leads, if you're not marketing or advertising in some way to generate leads and deals, you don't have a business. You're going to die.

So I would say that you need to put a few fishing lines out in the water. The more lines you have, the more chance you might have of catching some fish.

Andrea: And discovering what works and what doesn't.

Doug: Exactly. So in my opinion, for this guy who asked this question, you know it depends on your budget. If you have a high budget, and you're ready to spend some money to try to get some deals quickly, there are lots of things you can do.

You can do direct mail on a higher scale. You can do some pay-per-click on the Internet; you can do a radio ad; you can do a TV ad; you can do billboards. This is pretty big stuff. Most "mom and pop" investors maybe don't have that high of a budget to try and find deals, which is understandable, so if you don't, there are some other strategies that are very low budget.

They might require some more time and effort, but I think they can be great, great strategies for finding some deals for you. And some of those would be like door knocking. We've mentioned this before, but either just drive through neighborhoods you'd like to invest in or you think would be good areas to buy properties in.

Look for the ones that look vacant, that look rundown, that might have a for-sale-by-owner sign, anything that has a hint that maybe that property is causing a problem for somebody because it's looking rundown or might be vacant, then that person might be interested in selling. Knock on the door!

Andrea: I think a lot of people ignore this one because it's uncomfortable, but it really is so effective. I was just talking to a mom at my son's school a couple days ago, and she was telling me how her husband really wanted to buy a rental property in this one town near where his mother lived, and he saw a house a few doors down that was rundown. He had never done this before.

He went and knocked on the door, bought the house. The first door he'd ever knocked on, bought the house.

Doug: There you go. Yeah, and it works so good because so few people do this because it's uncomfortable. It takes time. Nobody likes to, I don't know maybe some people do, but I don't like to door knock. I

just don't. But it can be a great way, and it doesn't cost you anything except time.

So do that! Drive around, knock on doors. If nobody is home, knock on the neighbor's door. Ask them about their neighbors, if they know anything about the house, and if they can get in touch with them. That's a good way to go. Or, form some relationships with some agents out there.

Go into some offices and find out who the real players are there, the agents that get a lot of listings, and just let them know who you are/what you do, and that you're looking for some of their properties that maybe need an all-cash offer Some of the fixer ones or some of the properties that their other investors aren't interested, to call you and give you a shot.

And there's a whole other podcast episode probably just in this topic here but you know, get to know some agents and try to build that relationship. Maybe they can send you leads— that's free. Go onto some for-sale-by-owner sites on the Internet like [Craigslist](#), [FSOB.com](#), and there's probably a million others.

Look for the ones that are for-sale-by-owner and start calling them up or just work the MLS. I think that's probably better than going to the auctions these days. Even though it's competitive, it's free and you can do that. Get on the MLS everyday and start calling up agents, making some offers.

Andrea: You can even call expired listings. You can call cancelled listings.

Doug: Right, yeah. Get a little creative. Look outside the box on the MLS, things that aren't just active listings. Good point. Also, wholesalers, the Internet is full of wholesalers. Just start Googling in your area and reach out to these wholesalers. Try to get on their lists; see if they have anything that day they could send you.

Go to some investment clubs and start asking who are the people who have deals here. I'm looking for deals.

Andrea: You know what's a great way to find wholesalers is actually to put an ad out on Craigslist because I've noticed that when we have tried to sell a property on Craigslist...

Doug: So you mean like listing a house on Craigslist for sale?

Andrea: Yeah, so okay maybe you don't want to lie. I guess you need a deal to actually list on there, but I feel like every time that we have listed something on there, the majority of the calls that we get are from wholesalers and bird-dogs. And it's been a great way to fill up our list. We get their contact info; we can call them on future deals. It was actually a great unintended strategy for finding wholesalers.

Doug: That is. That's a good one. And you know the last comment I would say about finding deals is, especially in Orange County and LA, it's a highly competitive market, and maybe you need to take a look at your margins. Are you really trying to buy too low, I guess is my question.

And I want to be careful to say pay more for a house because that's maybe not good advice for a lot of people, but listen, if you want to do volume in LA or Orange County, you have to tighten up your margins a little bit. What can you do to save money on selling the house, or on your rehabs, or on your holding time, or your hard money costs and private money? Can you get those down?

How can you get your costs down so that you can be a little more competitive and pay a little bit more to do deals? Because sometimes, again, if you're looking to do volume, that may just be the reality of your market. You're just trying to get too much of a good deal in that area, so take a look at that. Maybe you're just offering too low.

Andrea: So thank you so much for sending in your questions. This has been awesome. We would like to do more question and answer episodes like this, maybe once a month. So if you have additional questions, please feel free to email me at andrea@spousesflippinghouses.com , and I will get back to you, and we might read your question on the air.

Doug: Yeah, so reach out to us. Also, [please give us a rating and review on iTunes](#). It really helps us out. We love it when we get some of those.

Andrea: And if you're new here, head over to our website, [SpousesFlippingHouses.com](https://www.SpousesFlippingHouses.com). We have a free gift for you.

Doug: So that's it for the day. We have to hit the road, get out of here.

Andrea: Have a great week!

Doug: Bye.