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Hosted by: Doug & Andrea Van Soest

Episode 28 – Two Approaches to Selling Wholesale Deals

Doug: Welcome back to the Spouses Flipping Houses podcast. We're on Episode 28 today.

Andrea: We are recording this on a Tuesday, but it's going to air on a Thursday, but we're kind of pretending like it's our Monday because yesterday we took the day off.

Doug: It feels like Monday.

Andrea: It does feel like sort of our Monday, because yesterday we took the day off to take our six-year-old to Disneyland for his birthday, and we had such a blast. He's so much fun, especially one-on-one, and just a great age. But it was just exciting to realize that's what this business can do for you, just the freedom of lifestyle, the freedom of

time to be with your family and do the things that you choose.

And we just felt so grateful all day yesterday to be in this business that affords us the opportunity to take a day off whenever we want to, so that was pretty cool.

Doug: Totally, yeah and it's fun to get your kids one-on-one and take them to a special place like that, to just have special mommy, daddy day, and he's in preschool.

Andrea: He's in kindergarten.

Doug: Oh yeah, he's in kindergarten. He's the third kid; you kind of lose track after a while. He's in kindergarten, yeah, so we yanked him out of school for the day, went there, and just had a ball.

Andrea: The funny thing is that his favorite ride of all time is Splash Mountain and so literally we walk in the gates of Disneyland, and he wants to make a beeline straight for that ride. And he'd probably ride it all day long if we would let him. But I don't know if you've ever been on Splash Mountain, but the ride kind of goes round and round in this little briar patch story and at the very end, you go down a steep, steep decline.

And they take your photo, so every single time his photo, he looks petrified, absolutely terrified. But then you get to the bottom, and he says, "Let's do it again. That was the best thing ever."

Doug: His face was classic on the picture this time. It's always good, but he just looks like we're torturing him bringing him on this ride. And of course we're soaking wet, and it's cold for Southern California yesterday. It was kind of windy and chilly.

Andrea: And that was our first ride of the day, so we went around soaked for the whole rest of the day, but it was a blast.

Doug: But we had a great time. We should post that picture.

Andrea: Yeah, I will.

Doug: But today we're going to follow up on what we talked about last week, which was wholesaling, what that was, and why it's such a great strategy, and why we like it. And we're going to go into a little bit about selling your wholesale deals today, and sort of the two main schools of thought with that, and dig into what the positives and negatives are to those different strategies.

And we'll also, at the end, let you know what our favorite thing is to do. So I think we should get right into it. What do you think?

Andrea: Yes, let's do it.

Doug: There are two schools of thought out there when it comes to approaching the wholesale business. If you're going to be beginning in wholesaling, there are two angles to come at it that I hear taught a lot in different podcasts

and from different teachers that I listen to or that we learn from.

And not to say that one is right or one is wrong. We are going to talk to you about both of those today and the differences. So the first school of thought would be that you don't need a ton of buyers to work with; you really just need a handful, just a few good, proven buyers that are going to be repeat buyers from you.

And that's all you need, and then you can focus on getting the deals because you've got these great buyers that you know are going to buy the product. The second school of thought would be no. You need to build a massive buyers list first. Build this huge list, you have all these people that are hungry for deals.

Andrea: Before you even focus on getting a deal, you're just building a buyers list. That's what they'll teach.

Doug: Yeah, they'll teach to go after the buyers list first before you even get a deal. Then when you have a deal, you can send it to this massive buyers list, and the thought is that you'll have tons of people fighting for these deals, and you'll have them sold quickly.

So we're going to break down these two different schools of thought a little bit more. So let's talk about the first one.

Andrea: Okay so we're going to give you the positives and negatives from our perspective of each of these schools of thought. So for the first one, which would be working for a handful of buyers, the positives are that you are working

with a few people that you know they buy lots of property, and they know what they're doing, and you can trust that number one— they probably have the funds to close.

Hopefully, you have most likely worked with them before. If not, maybe you got this person as a referral but however you found this buyer, you know that they can perform because they have done it time and time again. And they're capable of closing when they say that they will.

And this is huge because when you are working with a seller, you've found this wholesale deal, you're ready to sell it, if you've told the seller, "I can close in ten days," you need a buyer that can close in ten days. And you need to be able to trust that buyer is going to be able to close in ten days or else you are in major hot water with your seller.

So being able to trust your buyer is very, very important.

Doug: Yeah this is a huge positive to this strategy, just sleeping good at night knowing that you're dealing with a capable and trustworthy buyer.

Andrea: Yes, and then I think that the second positive to just having this handful of buyers that you work with, once you've found this handful of people that are proven, solid investors, then you can just be focusing on getting your deals. Whereas if you're focused on developing this massive buyers list, that can take a lot of time.

And so here, your energy and your efforts can be all focused on finding the deals.

Doug: Yeah. So let's talk about the negatives of this school of thought. First of all, if you get a deal and let's say you have four or five buyers that you have that could potentially buy this deal. And what if all of your buyers pass on it? They say, "Nope. Not interested in that one."

Well now you're scrambling. Now you have no other options, and you're forced to try to do some other desperate method to hopefully find a buyer for this property, so that can be a negative. Secondly, just like supply and demand, the less buyers you have, the less sort of negotiating power and leverage that you have.

Let's say you're down to one and they know that. Well they might low-ball you because what other options do you have? Your negotiating power is lessened at that point. And also, typically when you're dealing with proven, seasoned, investor buyers, these are pros as well.

And as all investors are, they want a good deal, and most of these buyers are probably flipping these homes, maybe they're keeping them as rentals but most are trying to flip them and make a profit. So they're looking for a low price too. They're looking for a good deal and therefore because of that, they probably aren't going to be paying you top dollar for the properties.

Also, and we've had this one happen, you can have a great buyer that buys multiple properties from you, and they're really hungry during that phase of their business. And then for whatever reason, next month they may be out of business or they may choose...

Andrea: Or they bought too many that month and they don't want to buy any more.

Doug: Right. They just may not want a deal at that given time, so you're going to have to be continually replenishing even your good, trustworthy, small group of buyers, so that can happen to you too, and you may not have too many options.

Andrea: Okay so school of thought number two, which is building your massive buyers list so you can blast your deals out to everyone. The positives to that is that you can potentially get much more for your deals when you get them under contract because you're going to have multiple buyers bidding each other up basically.

Doug: Again, supply and demand.

Andrea: Right, exactly. The second thing is that it will be easier to sell those "unique" properties that other buyers might pass on. Maybe it backs to a railroad track or it's in a flight path, sometimes when you have that big buyers list, somebody on that list isn't going to care about those unique qualities.

Doug: Yeah or certain areas, or maybe commercial-type properties. Maybe your core group of buyers doesn't buy that type of inventory, but somebody on your massive list might.

Andrea: Right. And then the third positive to this is that it can help you have a better gauge on what buyers will pay for properties. It's really kind of similar to putting it out on

the MLS. It's the investor's version of full-market exposure, and it lets you buy with confidence I would say as you're locking these deals up, because you know what the market will pay for them.

Doug: Right, right. Some of the negatives to having this massive list of buyers that you're blasting out deals to is that first of all, you might turn off some really good buyers, some of these really core investor buyers who could potentially buy a lot of properties from you.

Andrea: Like us.

Doug: Like us. You may turn them off, and here's why. Because when we get an email, we get a lot of these blast-out wholesale deals, and we just immediately put it to the side.

Andrea: Delete. I don't even read them anymore.

Doug: Yeah I'm not going to spend a bunch of time researching this property because I know a thousand other people got this email, and I don't want to compete, and I don't want to deal with it. So we're not even going to give it a thought, so therefore you're losing some potentially good buyers because now it has lost its luster to us.

It's not just exclusive. You're not offering this deal to me; you're offering it to me and half of our city, so that's a definite negative. Another one is that when you do it this way, you're probably going to be dealing with a lot of new buyers, unproven buyers, different buyers each time

almost, and that can equal a lot of problems and hassle for you.

You'll have buyers getting loans, and maybe they're trying to get a conventional loan on a deal that just needs a ton of work, and it won't qualify for the loan. Or you've got people that just don't know what they're doing; they want to send an inspector out to the property, and then they want to send another inspector out to the property, and then they want to send their appraiser out to the property.

And you're creating all of these potential problems in dealing with the seller, and attending it, and trying to coordinate all of this stuff.

Andrea: Or you risk people doing what is known as creating a "daisy chain." So they're tying up their property with you, and then they're really looking for another wholesale buyer, and then maybe that buyer is looking for another wholesale buyer, and seven people down the line you've got their property sold.

Doug: You've got to put the kabosh on that if you sniff that out. That is a definite no-no and a definite problem to get into. Yes, definitely that's a negative, so there's just a lot of potential things that can go wrong when you're dealing with new or different buyers on each one of these projects that you're selling or blasting out to your list.

So ultimately, the negative is it can be a lot more management intensive, a lot more of a headache, a lot more stressful, a lot more moving parts when you're dealing with sometimes agents involved, and partners, and

just people you haven't worked with or who don't understand the wholesale process.

Andrea: You'll be constantly educating your buyer.

Doug: Constantly educating them, yeah. They may have gotten on your list somehow and don't even know who you are or what you do. So you're having to constantly teach them.

Andrea: Okay so what do you do? We've just given you the positives and negatives of both, and they both have positives, and they both have negatives. Well for us, we would suggest that you try a combination of both. And to be honest, we mostly do work with a handful of buyers just for the sheer simplicity factor.

It's people that we trust; it's easy; it makes our life simple, and that's really what we're all about. But we recognize the benefits to a massive buyers list too. So our suggestion to other people would be to do a combination of both.

So first thing would be to find that core group of good, reliable buyers who you know they want to buy multiple properties. And I would say you want probably five to seven of this type of person on your list, people that you know buy a lot of properties, you know they can perform, and you can trust their word is good.

Doug: Yeah definitely. At the same time, I think you should always be working on having a bigger list of buyers, people that are hungry for a deal. Because although 80 percent of the wholesale deals we do would be sold to this

core group, occasionally you'll have one that just nobody is interested in.

So it's good to have another backup method, if you will, of a greater amount of buyers that you can either send to them or go after them somehow, and let them know you have this deal and get it sold that way. So at the same time you have these core buyers, kind of in the background you want to be building a list of "reserve buyers."

And then lastly what we suggest you do, whether it's working with just your core group or especially if you're working with a greater list of maybe buyers you've never worked with, is always, always, always get a non-refundable deposit from your buyers and have them sign a contract, whether it's purchase agreement if you're wholesaling it that way or an assignment agreement.

Have them sign that, and make it very, very clear in there that their deposit is non-refundable so that they don't take you all the way to the day before escrow closing and then change their mind and back out for whatever reason, because that will happen. So at least this way you have a little bit of security, and their deposit is that risk.

Andrea: Right, so those are basically the two ways to sell a wholesale deal. You can either work with a small handful of buyers that you know are good and can perform, or you can work to build a massive buyers list that you can send all your deals out to.

There's no really one right or wrong way. I think it might even come down to your personality and what works best

for you, so we've kind of given you what works best for us. Hopefully you can pick and choose from these things that we've laid out here and figure out what would work best for you.

Doug: Absolutely, absolutely. So don't forget to send in your questions to Andrea, <mailto:andrea@spousesflippinghouses.com> We've been getting some great questions, and we love that, so keep them coming. We're going to have an upcoming question and answer episode that you might be featured on, but regardless we'll respond to you with an answer that we have.

And also, if you haven't given us a [rating and review on iTunes](#), we want to encourage you to please do that. We love getting those ratings and reviews, and they really, really help us out on iTunes.

Andrea: Yep, so have a good week.

Doug: Talk to you later.