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Hosted by: Doug & Andrea Van Soest

Episode 36 - Dave's First Flip

Doug: Welcome back to the *Spouses Flipping Houses* podcast. We are back for Episode 36.

Andrea: After a long and fabulous summer.

Doug: Fabulous. It was a great summer. We thought we would take a break for a couple weeks when school got out, you know. Things were kind of busy. We had a couple trips we were going on, and we didn't know that couple week break would turn into a couple months.

Andrea: We just thoroughly enjoyed our summer. I wish I could bottle up that feeling of peace and relaxation that you kind of experience when there's not as much hustle and bustle, and got to wake up, and go-go-go, and get kids to school, and then work, and then football practice, and dance. It was just so relaxing. Wish we could have stretched that out.

Doug: Summer was really full, really fun. Our kids are at an age where, I don't know. Normally this time of year when summer is coming to an end and school is starting, we start to do the happy dance when school is back in session.

Like okay, back to normal kind of schedule. But I don't know; we haven't felt that way this year. We want the summer to keep going.

Andrea: Yeah, they're kind of at that age where it was just easier. It was so, so fun.

Doug: So they're back in school now. They started last week, and we are back to normality and a normal schedule, if you will.

Andrea: If there is such a thing.

Doug: If there is such a thing, but that being said it allows us some time to get back to the podcast, which we're really excited about. We've been looking forward to getting back to record some episodes and getting some more feedback from you guys. So we are back!

Andrea: Okay, so this is a little off-topic, but there is no way we can not talk about my current personal obsession. Do you know what that is?

Doug: Oh, absolutely. It's on NBC 24/7.

Andrea: The Olympics. Oh my gosh, it's so exciting.

Doug: Yeah, so Andrea was the track star back in her day, in her heyday, and she's always loved the Olympics, and she has kind of brought me into that too. And we've just really enjoyed watching the competitors compete, and just hearing all of the back stories, and watching them, I don't know, celebrate when they accomplish this feat in their particular sport.

Andrea: Yeah the looks on their face when they have worked for years, blood, sweat and tears to accomplish this goal, and they finally accomplish it. And they're crying, and I'm crying. It's so cool.

Doug: It is. There's really something inspiring about it, just watching people you know, I don't know, live out their dream in that moment where they are accomplishing probably their life's dream. When they are winning the gold, or silver, or whatever it is they're doing.

Pretty exciting. And then there's the guy who does a false start, and you're done.

Andrea: Oh man, no second chance.

Doug: Wow, you know that's life.

Andrea: Terrible.

Doug: That's life sometimes though.

Andrea: I don't know. I think they need to reconsider that rule.

Doug: You blew it.

Andrea: Let's have a second chance people. One second chance.

Doug: I know. My heart breaks for them, but that's the way it is. Yeah, the Olympics have been great. We've got a cool thing we're going to talk about today, so we have a friend named Dave. Dave was actually in our wedding.

I was roommates with Dave in college, a good buddy of ours who has kind of worked with us off and on over the years. He actually read the book *Rich Dad Poor Dad* at the same time we read it. We were experiencing life together at that time, and the same thing happened to him.

He just got inspired, kind of became entrepreneurial and was wanting to do real estate as well, kind of like we did. Life took us different paths. Dave actually got in a band, got married, travelled around for several years on tour, and different things.

But Dave has always wanted to flip houses and has kept in touch with us over the years, and in the last several years he's actually been living in Hawaii with his family. He's been following the market, making offers here and there, asking for feedback from us on different deals that he comes across.

And we'll give him our opinion, and he's just been trying to get into this business. Well, a few months ago Dave got an acceptance on a deal, and the numbers look pretty good.

And so he is super pumped that he got his first deal under contract.

Andrea: We could not be more happy and thrilled for Dave because kind of like the Olympics, he's been trying and trying for this and finally got one. It's so exciting!

Doug: And we remember that feeling. We felt like we tried forever making offers, and different strategies, and just hovering around the industry for a long time wanting to just get that first deal. And when it happens, you're just a wave of emotions, and fear, and excitement, and nervousness that all hit you.

Andrea: Yeah, like the, "Oh no, why did they accept it? Was it too high?"

Doug: Why didn't anybody else overbid me? I must have done something wrong. Yeah those questions all come into your head. But through this process of opening escrow and getting things lined up for him to close and begin this project, he has had a lot of questions for us and understandably so.

He's sent us several emails, and we've talked to him on the phone quite a bit.

Andrea: But the thing is, he had really been studying, and researching, and learning for years. So we realized and would have thought at that point that he knows it all. He's ready to go, but he still got to this point and still had questions. So it made us realize there have to be other people that have these same questions.

Doug: Yeah and you can take seminars, and courses, and really know a lot about real estate investing, and then when you get your feet dirty and get into it, you realize that you don't know it all. There are questions; there's always stuff you're unsure of or that's holding you up.

And that's just normal, so what we did was took a bunch of these questions that we thought were great questions, probably questions that a lot of people, especially on their first flip, would have.

Andrea: Yeah, I think some of them are questions that probably scare people off not knowing how to do these things. So it's good stuff.

Doug: Yeah, so we thought it would be very informational for people, and they might relate to it. So we're going to get into some of Dave's questions on his first flip. So let's go for it.

Andrea: Okay, question number one: should I flip in an LLC, a corporation, or something else?

Doug: Yeah, so here's how we start this answer. We are not attorneys.

Andrea: Disclaimer.

Doug: Disclaimer, we are also not accountants, disclaimer, nor do we pretend to be by any means. But this is a very common question, very common, and a lot of people ask it.

A lot of people are wondering what's the best entity to do business in.

What do you set up? Do you do a corporation? Do you do a partnership? Do you do an LLC? Do you just flip in your own name? What do you do?

Andrea: We cannot tell you exactly what you should do. We are not telling you exactly what you should do. We'll tell you what we did.

Doug: We'll tell you what we did and our opinions and thoughts on this thing. First of all, don't let that question hold you back from even making offers, and that's the danger here is thinking, *I don't know what company to form or legal entity to have* and having that hold you back from even making offers.

Don't let that happen. Just make an offer in whatever. If you only have your own name to start, make it in your own name. Go for deal first. And I want to give kudos to Dave because that's what he did.

He got the deal first, and then he started to wonder what to do next and was asking this question after the fact. That's the correct order in my opinion, so what we did is set up an LLC here in California to start our first flip.

I don't remember if we had it set up— I think we did have it set up before we actually got our first offer accepted, but that wasn't that important. And we flipped homes in our LLC for I'd say the first year I think in the business.

The reason we did an LLC was we had just heard from other investors. We asked around, and other people had said that it was a good entity to have I think because the paperwork was simple in our state, wasn't a lot required in terms of the backend. It was fairly inexpensive to do and relatively easy to setup.

And it was kind of a layer of protection between you and the actual house, so that's what we did.

Andrea: But...there's a giant 'but' here.

Doug: There's a giant but. And this may be state-specific; I'm not sure. But in California, there's a thing called the gross receipts tax that applies to LLCs. Gross receipts meaning your total gross sales. Once you hit a certain amount, an extra tax kicks in and in real estate, it doesn't matter how much profit you make.

They're talking about gross receipts, and prices of homes are pretty expensive, especially in California. So if you have gross sales of a million dollars was I think the first tier, an extra \$5,000 you have to pay in taxes regardless of what your profit was. So that's like three houses here in our area.

If you sold three houses, you've hit a million dollar gross receipt tax or limit, and then your first \$5,000 tax bill kicks in, and then another one kicks in at like a million and a half or two million, two and a half. And it gets really expensive all of this extra tax, so we quickly changed out of that and now we actually flip out of an S corporation.

Now that's us personally. We recommend you seek advice on this; seek legal counsel. Ask an accountant and an attorney if you have those at your disposal because you'll probably get two different answers from them even based on what's good for legal liability protection and then what's also good from a tax standpoint. And you just have to make the decision from there.

Andrea: Like I said, don't let that hold you back. If you get one under contract and you don't have a corporation set up, buy it in your own name. Do it; figure it out on the next one. It's not that big of a deal.

Doug: Exactly. Yeah, flip it in your own name. Don't be too concerned about that. Just do the right things. Get your insurance; go forward; you'll be okay. Figure it out later.

Andrea: Okay question number two: What do you call the binder agreement that you were referring to in the purchase? Oh okay, so this is actually Dave's exact question that he emailed to you, and you had been telling him about how you purchased a binder for each deal that we do, and he didn't quite understand what that was.

Doug: Yeah, so let me try to explain a little bit. Some people might be thinking, *what are you talking about? Binder, what?* And that's okay. This is again one of those things that is not essential to know before flipping a house.

But typically in real estate when you buy a home, you're going to get a title policy. We do recommend getting title insurance, and the title company is basically when you pay

a one-time fee when you purchase the property. Usually it's paid by the seller in a normal transaction.

Like let's say you go buy a home off of the MLS with agents involved. At least in California, typically the seller will provide title insurance to the buyer, and they pay that fee based on the purchase price. And what that is, is the title company guaranteeing clear title.

So if something comes up later down the road that somebody raises their hand later and says, "No, I have legal right to this property," for some reason (there's all kinds of things that could possibly come up), well you're insured. The title company is going to guarantee that you have clear title, and they'll take care of any issues from that.

So you definitely want to get that but as a buyer, if you intend to resell this house in usually I think a two or three-year period, you can purchase what's called a title binder policy when you buy the home. So it usually costs about ten percent of whatever the title fee is.

So let's say the title insurance fee is \$1,000; then you're going to spend an extra \$100 to get this binder. And what the binder essentially is, is a commitment from that same title company to reissue a new title policy within the two to three year period for the next owner.

And typically since you are the investor here, you're going to be providing title insurance to the next buyer, so that's usually a fee that the owner would pay.

Andrea: That you would have.

Doug: Right, that you would have. And it's based on the purchase price, so let's say you're buying a home for \$200,000 and when you flip it, you're going to sell it for \$350,000. Well that policy might go from \$1,000 to say \$1,500 because it's based on the sales price.

But if you have a binder, you're guaranteed a dramatically discounted rate on the next title policy for the next owner. So I hope I haven't put anybody to sleep with all of this title talk.

Andrea: Basically it saves you money.

Doug: The bottom line is it's a way to probably save \$500, \$600, \$700 when you sell a home on title insurance. That's it. It's just a little trick to save money, so if you're going to be flipping, look into the title binder policy while you're in escrow with whatever title company you're using. That's all; that's the short answer.

Andrea: Kind of long, but that's okay. Question number three: I am so excited to get going on this project. Do you ever get started on the rehab before you close? Here's my answer to that.

Doug: Bum, bum, bum.

Andrea: No! No, no, no!

Doug: Absolutely not.

Andrea: Do not do that. There are a couple reasons. For one, you don't want to spend money improving a property that you don't own because anything can happen before you close and if that transaction falls out, you have just improved somebody else's property for free. You're not going to get that money back. Don't do that!

Doug: And you may think, *nothing is going to happen. it's a done deal. We're moving forward, and everything is set in stone.* Trust me, things can happen at the eleventh hour. Title issues can come up that we just talked about.

Andrea: Right and reason number two is liability issues. You don't own that home. You don't have insurance on it, so just not a good idea. Don't do it.

Doug: That's right. Somebody gets hurt on the job there, and you've got a real mess on your hands. Now it's somebody else's property where your person that you hired got hurt. It's just a big mess. You don't want to mess with that. It's not worth the risk. Just be patient.

I understand he's anxious. He's ready to get going, wants to get a jump-start. Time is money. We get that. Just line everything up, but don't start doing work. Don't start putting money into the house before you own it.

Andrea: Okay question number four: What steps do I take to record the DOT (or the Deed of trust) and note for my lender?

Doug: Okay so another good question.

Andrea: Is this one going to be a snoozer?

Doug: It might be, so grab a cup of coffee real quick while I explain this, DOTs or deed of trusts, now in some states it might be called a mortgage. In some states it's called a deed of trust. I don't know what it's called in your particular state, but here in California when you lend money on a property and you're getting security for that money you just lent, you get it in the form of a deed of trust against the property.

And I think in Hawaii it's the same thing. So to flip houses, we use private investors' money a lot, so people that we know will invest money with us, and we'll pay a rate of return. And in return for their money, they're getting a deed of trust as security for that note just like a bank would, any bank that's lending money to anybody.

So Dave is also using private investors to fund this deal, and he's wanting to know the process. Hey, how do I record this deed of trust for my lenders? Well there are two ways this can happen. The first way is in escrow. In your typical escrow process (or if your state doesn't have escrow, you'll use a closing attorney), you can actually have them handle all of that.

So your private lender will fund the title company or the escrow company. They will handle all of the paperwork in terms of writing up the deed of trust and making sure that it gets notarized properly, and then when it all closes, they'll go record it for you and handle it on the exact same day that the property closes.

That's kind of the easiest way. Now there are some scenarios, and I think that was the case here with Dave, where his offer was a cash-offer. And he was afraid to upset the escrow process and the seller by trying to have the escrow company record a note and deed of trust in the escrow because now it looks like there's a loan on the property— which technically there is— which doesn't meet the terms of the cash deal that he had offered.

So he didn't want to do that, so he was going to do it outside of escrow. So if that's the case, the process is pretty simple. Basically you want to have your private lender get the money to escrow however that happens, either they wire it directly to them or they send it to you and then you send it to the escrow company.

And then you want to have the deed of trust drawn up yourself. Now you may not know how to do this, and that's okay. I would get online, and you can go to any title company's website for your state, and they have the forms available for you right there with little fill-in-the-blank spots.

You can fill them in, have a notary, a good one, look it over. Make sure it looks good, and then get the deed notarized, and then after the property closes you just walk it in to your county recorder's office (search that in your area). Walk it in to the county recorder's office; get a number; they'll call you up to the window and say, "I want to record this deed of trust against this property."

They'll look it over and if there's anything missing, they'll let you know, and then you might have to come back and

make sure it's properly filled in. But it's pretty simple. Just figure that part out. There's not too much stuff to get hung up on there.

So that is the other process, and that is what I told Dave to do is do it yourself. Walk it in; make sure it looks correct. If you have a friendly title person who wants to look it over for you, that would be even more helpful just to make sure you filled in all of the numbers correctly and everything.

Are you bored over there?

Andrea: A little bit.

Doug: Sorry.

Andrea: We're like peanut butter and jelly babe. I'm so glad you handle that side of things. The next two questions are not nearly so technical, so that's why I'm answering them, and I just tuned you out right there because you got that.

Doug: Well and you've got the right mindset, like the bigger picture you know. *Hey, does the deal make sense? How's the rehab going to be? Let's get that thing sold, you know.* But some people, me included, are kind of analytic and get hung up on these things like, *oh I don't know this process. This is confusing to me, and therefore if I don't fully understand it, how am I ever going to do this deal.*

You don't need to fully understand it. Just kind of have the bigger idea, the big picture in your head and then once

you're in it, then you figure it out. Like Dave's doing here, asking questions: "Hey, uh I forget. How do we do this?"

And this is nothing new to Dave. He's worked with private investors a lot, so these little details he just didn't do or didn't know because he'd never really done it. So good questions that a lot of people will have, and just don't get hung up on them.

Andrea: Yeah. Okay question number five. I'm going to try to make this as understandable as possible to someone that did not read the entire email, just kind of a snippet of several questions, so he says, "Right now my running costs are about \$30,000." I'm thinking that means his total budget or what he's spent so far.

Doug: Yeah the total he's spent so far.

Andrea: Okay, "the major purchases left are windows, about \$2,000. I decided I needed to do them because a lot of them were broken, and a flip across the street just put in new windows. I still have flooring to do that will be about \$1,000 for material, a 12x12 concrete patio for \$1,000, a new front door for \$300. I still have to also do landscaping and gutters, so probably about another \$5,000-6,000 that I need to spend on top of the \$30,000 that I've already spent. So how do you know when you're overspending?"

Well I would say that depends on a lot of things. You really need to make your flip project clean, and functional, and competitive with your comps. That's your goal: clean,

functional, competitive. If you meet those goals, anything beyond that you're probably overspending.

So I feel like you're on the right track Dave. Windows, if they're broken, you've got to fix them. Flooring, got to have flooring; you already ripped out the other stuff, so you have to put in new.

Doug; That one is kind of essential.

Andrea: A concrete patio 12x12, that's not crazy so that's good. And then a new front door for \$300, I think that will be a good \$300 well spent, so I don't feel like you're overspending. I know you, and I know what you're doing Dave, and I know you're watching your comps, so for you I'm not worried about it.

I know that you're doing just the right thing, but I think that's a really great question. People probably get into the thick of it, and they're watching this money go out and wondering, *oh shoot. Am I overspending?*

But if you are making that property clean, make sure everything works, and you're competitive with your comps, then you're not overspending.

Doug: Now if his question would have been worded like, "There's some other things I want to do like this water fountain feature in the front yard that I think will just be a really cool thing. Or a brand new vinyl fence all the way around the front yard would make this house sell."

Those are a little bit more of a question mark because now you're talking about things you might not *need* to do.

Andrea: Right, then I'd say, "You know what? You might be overspending."

Doug: Yeah and again, Andrea hit it on the head. It's all about the comps and the neighborhood. Look at what has sold for the price you're looking to sell for and ask what they had.

If you can meet that and exceed it by just a hair, you're way ahead of the game. Don't do unnecessary expenditures for things like big water features and custom stuff that you won't get the money back on what you spent there.

Andrea: Right. Alright, question number six is our last question: For some reason, I thought I needed to match the exterior base color that was existing, which was blue. So I purchased a color-matched color (he said more words than that, but I'm trying to be concise here).

So I purchased a color-match type of paint basically to match the existing color that was already there, but I was looking back through a lot of your before-and-after videos, and I realized that you guys mostly do neutral beige colors and grays. So should I spend the extra \$180 to get another five gallons of a neutral color or basically use what I've already got?

So the reason we threw this question in there, because I know it seems kind of simple, but these are the things that

people get hung up on. And really, colors are not that big of a deal. So we tend to go with neutrals a lot of the time because you want to turn off the least amount of buyers as possible, and a neutral color is pretty much guaranteed to do that.

Doug: You're trying to appeal to the masses.

Andrea: Right, with a bright blue you're going to have a larger percentage of people that dislike that than a nice gray tone. So that's why we tend to do that, but you know, he lives in Hawaii. Maybe blue is really exciting there—I don't know.

We do use a lot of neutrals but in a property we just did, we just did a bright blue house actually because it's really cool and perfect for the neighborhood.

Doug: Yeah it's like a historic area that has kind of different colors going on, so maybe that's this area. I'm not sure.

Andrea: As a rule of thumb, I like to keep the base color of a property neutral. If that's going to cost you \$180 to do that, that's nothing. Spend the \$180 right, but it really depends on your comps. If the blue is okay and there are other bright, funky colors in the neighborhood because you're in Hawaii on these islands, then sweet. Save the money and go with what you got.

But if you want to be safe, I love a neutral color with a bright front door because people can see past the color on the front door. If they don't love it, they know that it's a

super simple fix. But a lot of people can't see past a color they don't like on the entire exterior of the house.

Doug: Yeah, and there are some colors that just make the house seem a little smaller maybe or if it's definitely an odd color for the neighborhood like you mentioned, you want to avoid that. You're trying to appeal to the greatest amount of buyers as possible. So yeah neutral colors are typically what we use, but in his case this blue might be okay.

Andrea: Right, yeah I think it's kind of fun.

Doug: So great questions Dave, we're super excited to see how this property turns out. I think he's just about to wrap up the rehab here in the next week, so we'll definitely check back in with him and see how it's going throughout the process. We certainly wish him the best, and I'm excited to see how it goes.

So that's it for Dave's questions. We will probably get some more later and maybe do another episode like this. We wanted to remind you that we are speaking at Flip Hacking Live in San Diego if anyone is going to be down here and wants to learn about real estate investing.

It's going to be a great event, so if you're interested in checking that out or getting some tickets, go to SpousesFlippingHouses.com/FlipHack.

Andrea: And if you are a social media person, you can [follow us on Instagram](#) and [Facebook at SpousesFlippingHouses](#).

Doug: Lots of good pictures of things going on throughout our business.

Andrea: Well we shouldn't say lots.

Doug: A few.

Andrea: I'm trying to remember to post more stuff. I'm one of those people just living my life. I don't stop and think, *Hey, I should post this picture of me doing this thing.* I'm just doing this thing! I'm trying to get better because it's kind of fun to share the process, and the photos, and the before-and-afters, and that kind of thing.

Doug: Yeah, so check us out there, and we will I guess talk to you next week.

Andrea: Talk to you later.