

Letter from the Editor

We hope you enjoyed a wonderful summer! It's hard to believe that the kids are already back in school - this year is flying by!

July was a slow month for loan originations. We originated three loans (the same number as last July). All three loans were First Trusts. Two were in Virginia and one was in Maryland. Business development activity was slow in July due to vacations and the lack of REI (Real Estate Investor) meetings. August is shaping up to be a more productive month. We will have about seven loans.

CHUCKLE'S CORNER

"An investment in knowledge pays the best interest."
Benjamin Franklin

Food for Thought

As Clear Sky Financial/Clear Sky Properties get more mature, we are receiving more requests for speaking engagements, and our presentations are popular with the investor community. As I write, we are doing a presentation at a local REIA meetup on "How to Find Distressed Assets". This is the same presentation that we did at the Think Realty conference in Baltimore. Below are the presentations that we have given to date:

How to Find Distressed Assets
X's and O's of Hard Money
How to Find the \$\$\$'s
The Perfect Residential Investment Business Model (This has been developed, but not yet presented.)

We were also recently featured on a national Think Realty podcast. The link to the podcast is <https://thinkrealty.com/podcast/>. You can stay abreast of our upcoming events and presentations by requesting to be added to our weekly events email distribution list.

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Math Problems to Generate Leads and Success

It does not matter the scale you are working on; you just have to figure out the formula that works for you. To be a successful real estate investor, it's all about generating leads to find the right property in which to invest.

We have a large portfolio of fix and flips, buy and holds and hard money loans. No matter what business line we are focusing on, we approach finding the right properties/loans as a math problem. We know that it is a numbers game. We are looking for the formula to help solve the problem.

Let's look at direct mail as an example. You have to send a certain number of letters/postcards to receive a certain number of phone calls, which will, in turn, generate a certain number of investment candidates. The candidates will produce a certain number of walk-throughs and purchase agreements, which finally generates the number of properties we turn over in a month. Many people think that real estate investing starts with the property you buy. But there is so much more that needs to happen before that property even comes into play.

Seven years ago, the MLS was basically everyone's lead generation source. You could find deals on the MLS. Today, investors have to be more creative with how they are generating their leads, as the sources are frequently changing from market to market. Off-market deals, or those not listed on the MLS, Zillow, Trulia or property listing sites, are the best deals to find for yourself and your investors. Here are some things we do to find the deals that no one else knows about and generate as many leads as possible.

Direct Mail

We gather a list of homeowners who we think may be motivated to sell their home. These may be owners that are behind on their property taxes, have inherited a property, have bad credit, have city violations against them, or can't keep up with the property. We send them mail seven or eight times a year. We send a variety of mailers to reach the different personalities of the homeowners: simple postcards, professional postcards, handwritten letters, urgent notices, business letters, and invitations. We send out these mailers in hopes of the homeowner giving us a call because they want to sell their home.

Cold-Calling

We conduct "skip tracing" on the same lists we have for direct mail to generate their phone numbers. We then call them to gauge their interest in selling their property. This is a less expensive, but more time-intensive, alternative to direct mail.

Auctions

We attend/bid on all kinds of auctions. We bid on foreclosure auctions, bank-owned auctions, and tax auctions; both online and in person.

Networking

A large part of our business comes from networking with other wholesalers and real estate agents at events, REIAs or meetups. By creating your brand and talking to everyone in your market, leads will start coming to you.

For us, it is all about the math. We have a number of properties that we want to be able to buy and sell each month. To do that, we have to have many properties coming into our inventory. We know the number of mailers we need to send out, the amount of money we need to spend, the number of calls we need to make, as well as the number of networking opportunities we need to attend in our market. It does not matter the scale you're working on — you just have to figure out the formula that works for you. What are the numbers that you need to hit to make the next deal? Figure out that math, and you will be successful.

Education – It's Critical in Risk Mitigation

On any given day, Charlie and I receive a half dozen phone calls/emails inquiring about getting financing for “flip”. A lot of the callers reach out to us after hearing about Clear Sky Financial at local real estate investor meet-ups. These prospective borrowers may have a specific property to evaluate, but more often they are calling to discuss the evaluation/acquisition process. Whether they are experienced or not, they want to know what we think makes sense for renovation costs, closing costs, sales prices, and profit margins.

Why do we care about their evaluation process? The best way for us to save time and reduce risk is to have our borrowers carefully evaluating their own deals. We want every one of our borrowers to make a good margin on their purchase so they come back to us for repeat business. We start on the phone with detailed discussions, share spreadsheet models, and visit properties so the borrower is well-informed and we know exactly what we are lending on.

Renovation costs can consume all of a flipper's profits if the scope of work is not properly evaluated up front. Nobody wants to go through all of the work and risk with acquiring a property only to give up their profit to unforeseen repairs. On older or dilapidated assets, the risk of scope creep on the project is high. How much can it increase? Missing or cracked foundations, windows that can't be salvaged, and water penetrations in basements are examples of surprises that really need to be avoided. A cursory review of a house may not be sufficient to identify these types of issues. In cases where the borrower is new to us, we have our own contractor go to the property and evaluate the scope of repairs. Another problem that comes up is unrealistic borrower expectations about saving money on their renovation. Does it really make sense that a house can be sold at a premium price without upgrading the roof and siding?

Having a total understanding of the marketability of an asset is essential to selling it. Not only what will the house support on an appraisal, but what other marketability issues might there be on the property. To what level is the house being improved? Is staging the house needed and is it part of the budget? Are there power lines, railroad tracks, or a busy road nearby that is going to impact marketability? If you know the neighborhoods like we do, these are questions you can answer quickly. If we aren't sure about a location, when we are out doing other things, a drive-by visit can clarify our thinking.

Making sure our borrowers are educated about the true costs of acquisition and are realistic about renovation costs and sale prices are the best way to protect our investments. Through this education process, we forge strong relationships with our borrowers. They know that our highest priority is their success and that keeps them coming back!

Deal of the Month

This month's Deal of the Month involves a pre-foreclosure that Clear Sky Properties purchased in less than a week (three days). Why is this relevant? Because if we did not have a performing team around us, we would have never been able to do this... as the seller was in California!

CSP sends out mailers to buy houses all-cash. We had a person respond to the postcard mailer and request an offer on his house. Upon doing research on the house, we realized that it was going to foreclosure the next Friday (one week away). We had to close this at least 24 hours before the Friday 11:00 am sale. It took the entire weekend, until late Sunday night, to get the California seller under contract. We had the deal closed by Wednesday, with FedEx packages flying across the country and the final payoffs in hand.

A big thanks to CSF investor Rick Oppenheim and his title company (Atlantic Settlement Group; 703-425-9777) for a valiant effort. It really helps to have a performing team!

P.S.... It was a \$260K purchase on a property worth \$425K!!

July Deals



98 Leeds Court E



4132 Granby Rd.



15911 Redland Rd.