

## Letter from the Editor

Happy New Year! We wish you a happy, healthy, and fruitful 2019.

We had a productive December. We closed five loans totaling \$1.63M, all of which were First Trusts. Two of the loans were fix/flip loans and three were buy/holds. It looks like January will be a huge month. We have already closed five loans and have three more in the queue before the month's end!

### CHUCKLE'S CORNER

*"Success is walking from failure to failure with no loss of enthusiasm." -*

Winston Churchill

## Food for Thought

On April 6, we will be at our fourth Think Realty conference in Baltimore, MD, where we will have at least one speaking engagement. We are still in the process of selecting our topic. Please stay tuned for additional details!

We continue to be sponsors of the Northern Virginia real estate investment club TRACTION REIA. We are the only hard money lender sponsor. The club holds monthly meetings that attract an average of 100 attendees, most of whom are new to the investment space. We lead brief presentations of 5-10 minutes at each meeting. We also sponsor a new group in Washington, D.C., the Heels and Deals Meetup.

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## The Perfect Residential Investment Business Model (Part 1)

It takes a lot of time and work to build what I call the "Perfect Residential Investment Business Model" from scratch. This is not a get-rich quick model; it is an income producing asset-building model. It can be generational if you build it correctly. This is what we have been building for the last 15 years. There are four components to the model: Fix and Flips, Rentals, Hard Money Lending, and Tax Lien Certificates. In this article, I will discuss Fix and Flips and Rentals. Keep an eye out for next month's article covering Hard Money Lending and Tax Lien Certificates.

### **Fix and Flips:**

This is a simple strategy where you fix/flip/renovate. There are at least 100+ different ways to find these assets. Our main focus over the years has been in the distressed asset space, which consists of pre-foreclosures, foreclosures, bank owned homes, estate homes, and more. The "pros" of this approach are that you generate cash flow with the flip profit (most of which should be re-invested back into your business), and it is a fast approach, taking between 120-180 days to complete. The "cons" of this approach are that selling flips will inhibit you from profiting from future appreciation.

### **Fix and Flip Strategies for Success:**

- \* **Buy Wholesale/Sell Retail** - Buy non-MLS properties (wholesale) and sell via the MLS (retail). You will make your money on the buy!
- \* **Renovation** - You need to renovate to your product type. The finishes should reflect the property type and out price. Do not over-renoate, be sure to stay within your renovation budget for the most success.
- \* **Understand your ARV** - The ARV is the After Repair Value of an asset. You can get this value by doing an MLS search. If you do not have access to the MLS, call upon a good Realtor who is preferably in the investor space.
- \* **Talk to Your Community Banks** - They may be able to help you create Fix and Flip Lines of Credit.
- \* **Build a referral network** - Working with Realtors, wholesalers, and other professionals can help bring in deals.

### **Rentals:**

We have a nicely sized portfolio of rentals. For each rental, we determined whether it made sense to keep the property as a rental by comparing the rental price with the purchase price and rental renovation costs. When buying a marginal cash flow deal, it will make sense to keep the property if you feel there might be a large future appreciation. The "pros" of this approach are market appreciation (the compounding of equity when owning more than one property); huge depreciation tax write-offs; and the ability to use the rentals as leverage to further expand and buy more rentals by putting low-interest loans against your rental properties, and using the rents to pay down your debt. This works well in a low-interest environment. The "cons" of this approach are the time investment of managing multiple properties; maintenance and vacancy concerns; untapped equity (it is very difficult to use the built-up equity to reinvest because banks do not want to put credit lines on the properties); and liquidity challenges.

### **Rental Strategies for Success:**

- \* **Buy Wholesale** - Buy with a predetermined equity position.
- \* **Use the Rule of Thumb: 100x Rents** - If the purchase price is somewhere between 1-100x the rent price, we ALWAYS keep the property in our rental portfolio.
- \* **Talk to Your Community Banks** - They may be able to help you create Buy and Hold Lines of Credit.

I hope you found this article on the pros and cons of Fix and Flips and Rentals, as well as suggested strategies for success with each approach, to be helpful. I look forward to discussing Hard Money Lending and Tax Lien Certificates next month.

## DC Market Trends in Real Estate and Hard Money

We are off to the start of the Spring housing market! Investors, borrowers, buyers, and sellers are all reaching out to find out where this market is going. People want to know the impact of higher interest rates on consumer behavior and they want to know if the government shutdown is going to slow sales and price growth. These negative factors can definitely be a drag on the housing market. There are valid concerns about the market. However, I think there are some positive trends that are unique to our region that should be considered.

Regionally, we are fortunate to have a very balanced market. When searching listings in the MLS, I find that the supply of housing in the areas we are active can be absorbed in about three months. That means that at the current rate of purchases, all of the inventory of available houses on the market can be purchased/absorbed into the market within a period of ninety days. Looking at some of the hotter submarkets in neighborhoods we see even faster absorption rates. Construction/contractor pricing is up. Materials and labor cost more this year than in any recent years. I estimate that year-over-year for the past two years both our materials and labor costs have gone up 7% annually. This is a strong indicator that there is intense investment in our region, driving competition for the available construction resources.

Demand is still strong. Anecdotally, we have had listings go on the market and fly off in a day. Product that is entry-level or priced higher than the mid-level pricing does not seem to be adversely impacted by the government shutdown. The government personnel impacted by the shutdown are spread throughout the market, and there are still many private sector buyers at all income levels looking for homes. In October of 2013, the government shut down for sixteen days and the real estate market saw an immediate slowdown. We are not seeing that right now.

Supply is still anemic, as it usually is in January. There are not too many houses on the market at this point. A smaller housing supply tends to slow demand because there aren't a lot of choices for buyers. However, it is still very early in the 2019 market and it is likely that supply will increase dramatically as we get further into the year. Last year, the inventory on market increased approximately 55% between January and May. We will probably see a similar trend this year.

The demand for hard money is enormous. There are a lot of newbie flippers who find houses to fix up and are interested in entering the real estate market. Years of growth have drawn these new investors into the market. As a hard money lender, we spend a lot of time weeding through new investor deals and looking for good ones where we are confident that the investor can execute successfully.

So, while there are clouds looming in the market, I believe that flippers will be able to still find good deals this year and have a decent market in which to sell their product. The best strategy for a flipper is to have the best product in their submarket at the best price. Buying with that strategy in mind leads to investment success. We have never bought on the hope of an improved market. When we flip houses we make sure that we get a great buy price. We support the same kind of deals with our hard money business.

## Deal of the Month

The December Deal of the Month involves a quick close on a property in Vienna, Virginia. A loan officer from Prime Lending referred us this deal. She had been working on it for months and the deal had to close by the end of the year. She informed us around December 20 that this deal needed to close before the end of the year. Thankfully, the title was already pulled. We were able to close on a First Trust of \$725,000 in less than a week during the holiday season. This was the second deal this loan officer has referred us. Thank you to her!

## December Deals



1021 N Cathedral St.



8126 Gavin St.



300 Mashie Ave.



6167 Monroe Ave.



24 Aldyth Ave.