Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

June 2021

Letter From the Editor

May was a busy month with a lot of loans falling into June for one reason or another. We did five loans, all of which were First Trusts. We closed three loans in Maryland and two in Virginia. June will be another busy month.

We seem to be expanding our private lending business in an environment that is very challenging for those seeking distressed assets due to the ongoing foreclosure moratoriums. As a result, we are increasing our market share percentage in the DC, MD, and VA marketplace.

CHUCKLE'S CORNER

"If at first you don't succeed, try, try again. Then quit. There's no point in being a damn fool about it." *WC Fields*

Food for Thought

We have launched weekly podcasts called *Basement Tales*. We will have 29 or 30 episodes out by the time you receive this newsletter. It is a podcast on various real estate investing subjects based around stories that have happened to us in the past. Below are links to our podcast.

You can access them on
https://podcasts.apple.com/us/podcast/basement-tales/id1541056033
or
https://www.youtube.com/channel/UC0R91IRsAunltHsXN9ygf_Q

IF YOU LISTEN TO THE PODCASTS, PLEASE LEAVE US A REVIEW!

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Four Falsehoods About Hard Money Lenders

Hard money loans are the BEST loan vehicles for your fix/flips and for the purchasing of buy and hold properties. The reason for this is that hard money lenders (HMLs) provide more cash towards the purchase of the property and, in most cases, will provide 100% of the renovation costs. All you need to do is execute on the project. Sadly, most real estate investors remain in the dark because of the many falsehoods surrounding HMLs.

Below are four myths about HMLs.

X Less Return on Investment (ROI) on Your Project.
O This is not true. The ROI is simply the profit divided by the amount of cash the borrower (investor) puts into the deal. Hard money lenders will loan a greater amount of money into a particular deal than any other lending types. Thus, you will have to put in less cash. You ultimately have a higher leveraged return. Isn't the name of the game OPM (Other People's Money)?
If you are interested in seeing the numbers, please reach out to me for a loan scenario where we compare a hard money loan to a cash deal, to a soft money (community bank) deal. You guessed it—the hard money loan has the best percentage return.

X Hard Money Loans Are Too Risky
O Some borrowers mistakenly believe that HMLs are not as cautious as conventional banks. This is not true. Most hard money loans are ASSET BASED loans. They just look at the deal in a vastly different way. They will take more time to evaluate your deal and your contractor. This will further ensure the success of the project. HMLs do not waste much time poring through unnecessary paperwork regarding your deal. Also, if you need to consult with them regarding the project, most lenders are there to help. I cannot tell you how many deals I have turned down because the deal was too TIGHT. In most cases the after-repair value (ARV) is overinflated or the renovation budget is underinflated.

X Private Money Loans Do Not Need Any Documentation
O This is another misconception. HMLs do need documentation. It is just not tax returns and proof of income. The documentation required includes the sales contract, renovation budget, draw schedule, broker price opinion (BPO) of the ARV or appraisal, lender's title policy, government issued ID, and a hazard insurance policy. HMLs are a lot more lenient than conventional banks; however, all documentation is mostly project/asset based.

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Post-Pandemic Housing Market Values

The post-pandemic social and housing trends are going to significantly influence housing values. In our ongoing series of newsletters, Charlie and I have often described that housing prices are impacted by the "submarket" of their location. Even in a market that is generally rising, we are seeing material differences for the number of days on market and the speed at which homes are selling in various submarkets. This is being driven by overall social, employment, and housing trends post pandemic. If you own real estate, consider how the trends identified below are going to impact your property values.

Crime rates—Rising crime will reduce property values in zip codes where it is happening. Check the news; no matter what your source, you will see that crime of all varieties is on the rise in urban areas. There are detailed studies available for review that examine the correlation between the drop in crime in the 1990s to increasing property values. These empirical studies show a direct correlation between lower crime rates and increasing values. This applies to both violent crime and property crime. There is absolutely no reason to think the reverse is not true.

Property age and condition—Prices for housing stock that needs a lot of work are not going to improve as fast as the rest of the market. Buyers who are looking for a "fixer-upper" are not going to be willing to pay as much if the cost of fix-up materials is up more than 100%. That 50+ year old house needing a renovation isn't going to be nearly as desirable as it was previously. Assuming the buyer does the work themselves, they still need construction supplies. With wiring up 100%+ and lumber up 400%+, their cost structure has changed a lot.

Worker revolt, telework, and wages—Suburbs, exurbs, and rural area values are going to rise more than urban centers. The worker employment environment has changed dramatically. For a variety of reasons, more people are staying at home then entering the job market. Many people have retired for good. Telework is here to stay. At least half of the employees who shifted to telework are not going back to their offices full time. The requirement for an employee to live very close to a city center has changed for many people. The cost structure for people who work remotely has also changed. Commuting costs are down, apparel costs are down, and people need additional space in their home for home offices.

Amazon and home delivery services—Living in a multi-use location with retail, employment, and housing all in one central area just became a lot less desirable. Retail products can be delivered directly to homes conveniently. Food choices at home have grown exponentially through UberEats and competitors.

Mass transit and air travel access—Demand for walkability to mass transit is down and will stay down. Since fewer people are traveling to city centers, not as many people will need to live within walking distance of a mass transit center. Not as many employees need to live near an airport. The use of Zoom is going to keep a lot of business travelers and conference attendees at home for the long term.

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