Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

September/October 2021

Letter From the Editor

We apologize for missing the September 2021 newsletter. We were really busy! No excuses. We did 15 loans during this time. We are on pace for a record year in the number of loans that we have done and the loan volume. We really appreciate your support as INVESTORS!

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 in the DC, MD, and VA marketplace.

Thank you to those who have increased your positions with us.

CHUCKLE'S CORNER

"Autumn ... the year's last, loveliest smile." — *John Howard Bryant*

Food for Thought

There will be an article written by us in the November edition of *Think Realty* magazine. We have published quite a few articles with them in the past.

We have also done a few speaking engagements in the last two months, including a lunch and learn for some Weichert Agents on the Xs and Os of hard money lending. We presented at the MOCO/FRED monthly meetup, and were the main presenter at Novembers Traction REI meeting, on how to find distressed assets. Charlie was a panelist on a lending forum for the National Association of Hispanic Real Estate Professionals (NAHREP).

In This Issue:

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Avoid These Four Mistakes When Rehabbing a Property

We have done over 500 hard money loans and have flipped over 350 houses, so we have seen a lot of rehabs. If you are not careful you can overdo it when it comes to rehabbing a property. Planning the rehab can be fun, and as a result, far too many inexperienced flippers end up sinking too much money into their rehab. They think they will make it back and then some when they sell the home, but. this is not always the case. It is far more important to rehab smart than to rehab more. In these days of increased competition and decreased profit margins for rehabbers, it is very important to be VERY efficient at rehabbing the property. Here are some pitfalls to be aware of as you plan and execute your renovation:

1. Do Not Add Square Footage—Just Upgrade
Adding square footage to the original structure can be complicated and prolong the renovation. There is a reason why we typically do not fund rehab projects which add to the building footprint: This type of extensive construction typically takes longer than our allotted rehab timeline and requires more permits. Instead of adding square footage, focus on upgrading what already exists within the home. Instead of adding an exterior wall to make the kitchen bigger, try knocking through an existing, nonsupporting wall inside the home to give the kitchen an open floor plan.

2. Do Not Overly Improve for the Location
Understanding the neighborhood is vital for the type of renovation that you are going to do. No matter which way you slice it, there are rules to the fix-and-flip game. One that far too many people overlook is the importance of the neighborhood evaluation. A good rehabber will inspect the property and compare it to the kinds of prices homes are selling for in the neighborhood. This way, you can have a more realistic expectation when it comes to your overall profit. You cannot expect to buy a home in a neighborhood where selling prices are in the $350,000 range and expect to sell it for $550,000, no matter how good the rehab is. The key to really making a profit here is to find a dilapidated home selling for an extremely low price (say $175,000) in a $300,000 neighborhood. This way, you are nearly guaranteed to make an excellent profit after your rehab work is completed.

3. Do Not Overly Rehab a Room (Kitchens, Bedrooms, Baths)
Believe it or not, overimproving a room can scare buyers away. Say you have done everything you could to turn a bedroom into a luxury suite with a larger bathroom and added an attached deck. This can put your resale price at or over the highest prices in the neighborhood—see mistake #2. No one wants to purchase the most expensive home in the neighborhood. Make sure your rehab work is improving the home to make it comparable to prices in the area. Also, make sure to do your research about what most buyers in the market will be looking for in a property, rather than your own personal rehab vision. Remember: Your goal is to resell the house quickly for the most profit.

4: Be Careful When It Comes to Landscaping
This is another great opportunity to keep in mind what the everyday buyer will want in your property, not what you would want. With every renovation you make, you personalize your house, and you need to let it appeal to as many buyers as possible. Add beautiful, lower maintenance features to your landscaping and keep in mind what will attract the buyer. You may think a pool will increase the value or be a great selling point, but many buyers could view it as a nuisance or a hassle to keep up.

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Repurposing Space and Unlocking Value

There are a lot of ways to make a profit in real estate. One of the very best ways is to transform a space or property from one use to another. This can happen on a large scale, such as the redevelopment of the entire waterfront on the river in Washington, DC, or it can happen on a small scale when a rental unit is added to a private home. We are always looking at new ways to transform land use and physical space. Sometimes these projects are more of a development effort than they are a renovation. A development effort involves changing the local jurisdiction's approved current use of land or a building and getting it approved for another use. Development creates a lot of economic value by changing authorized uses; it is truly transformational.

This month we evaluated a large residential redevelopment project that is going on in Arlington near the Iwo Jima Memorial. A 240-unit hotel is being converted into one bedroom and studio apartments. The property was largely obsolete and was underutilized as a lower end hotel. In its original incarnation, it was a nice apartment building; the hotel was its second use. The latest buyer had it rezoned back to an apartment building and is doing only a modest upgrade. The units will be clean and neat and appeal to entry-level studio tenants such as graduate students. So, looking at this one property over the 60 years of its life, we can see that investors have been able to make money in three different uses.

Development and renovation create three primary ways to make a profit. The first way should always be given the most consideration—make a profit on the first day! That is, the day you buy a property, you get it at a price that reflects its current use while you are attached to a process/path that will create a different, higher economic use. In this respect you will always be making money on the day of acquisition; you are locking in a profit before the project even starts. The second window for value creation is the day you get the higher economic use approved by the local real estate regulatory authorities. A change of use can be a zoning change or even an approved set of building plans. This is an easy time to part with the property before you get into the risk management associated with physical development. Finally, once you have reconfigured or built a space—the day you get it leased up and utilized for its highest and best use—is another day for profit. The buyer at this time will pay a premium for having a good tenant and a performing asset. Depending on your skill set, access to financing, and timeline, you can sell it either after the approval happens or after the new tenants enter the property. In the alternative, you can hold onto a property to enjoy the cash flow or future appreciation.

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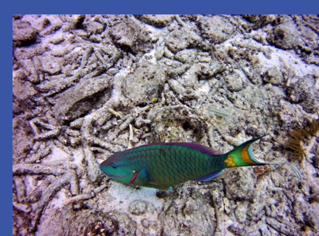
Deal of the Month

Have you ever stopped a foreclosure auction in 2 days? We did! The house was located in Culpeper, VA. We helped an investor buy a subject-to-deal in 2 days that included a trip to NJ to get the owner to sign and notarize a deed. A subject to deal is, basically, where you start paying the current loan. We had to wire money to bring the loan current. This is not an assumption, as the former owner is still responsible for the loan. The numbers were as follows: $195K subject to (approximate amount left on the loan), $44K to bring the loan current, and $10K to the owner, for a total purchase price of just under $250K. The ARV is around $350K, and it will rent for $1,950 a month.

Underwater Deals



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