

# TIM HERRIAGE

REAL INVESTING FOR EVERYDAY INVESTORS

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## Wholesaling Real Estate

Week 2: Reverse Engineering

Understanding buyers, their capital sources, and how to back into the numbers.

October 20, 2020

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# Agenda

- Exit Strategies
- Property Types
- Money Structure

# DISCLAIMER

I am here for your entertainment. The information provided in this presentation is for illustrative purposes only and does not represent actual performance.

You are strongly advised to consult an attorney (several) and qualified tax professional prior to making any investments or decisions that are represented in this presentation.

# Exit Strategies Overview

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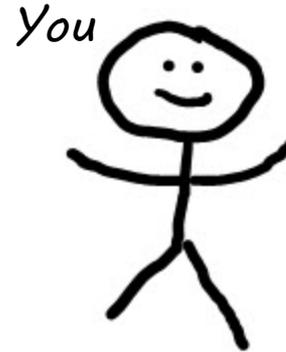
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# Most Common Exit Strategies

- Assigning
- Wholesaling
- Rehabbing (Retailing)
- Rentals



# Supply Chain



Raw  
Materials



Factory  
(Adding  
Value)



Logistics  
(Adding  
Value)



Distribution  
(Adding  
Value)



Consumer

\$ZERO



Wholesale

Retail

Full  
Market  
Value

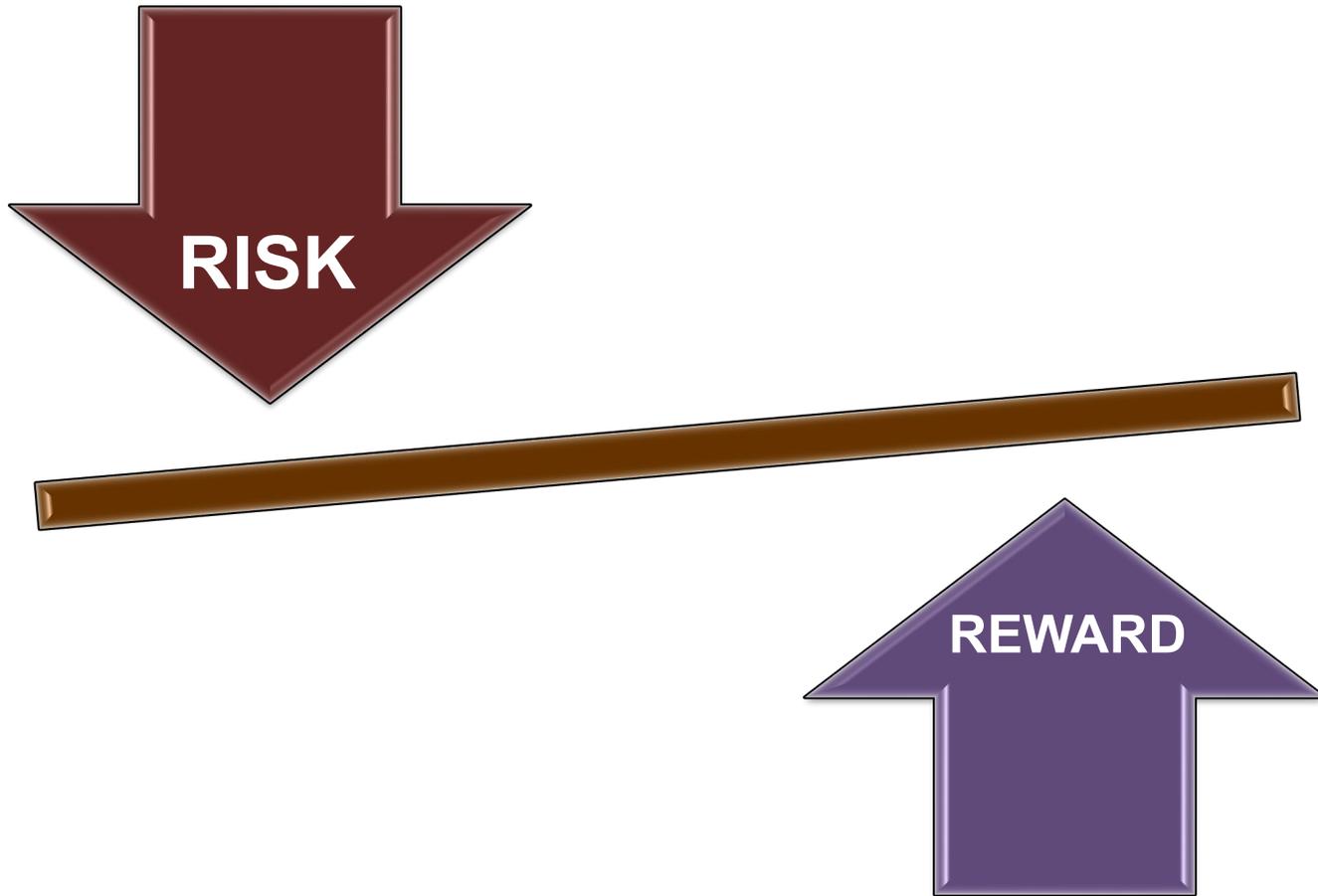
# What's the "Right" Exit Strategy?

## It Depends!

# The Right Exit Strategy Depends On:

- Your Goals
- Your Risk Tolerance
- Your Access to Capital
- Your Bandwidth
- Time of Year

# Managing Risk/Reward and Cash



# Most Common Exit Strategies

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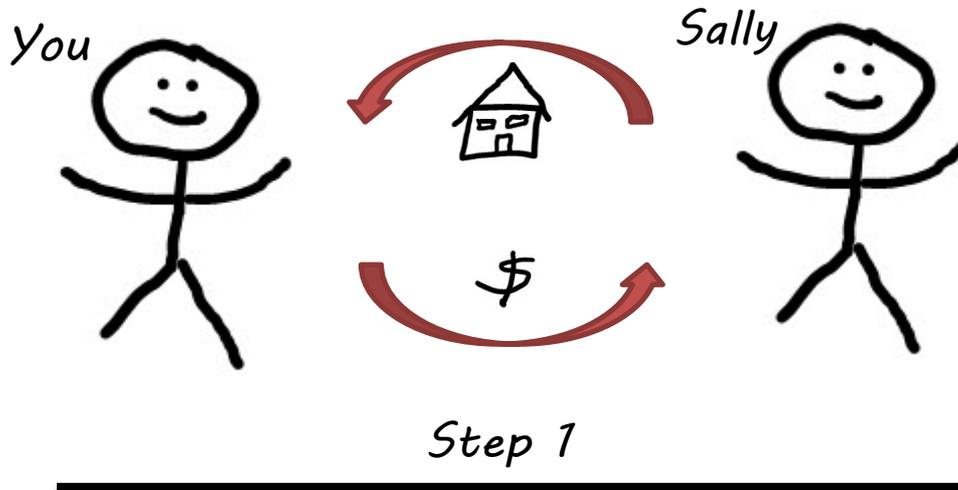


Wholesale

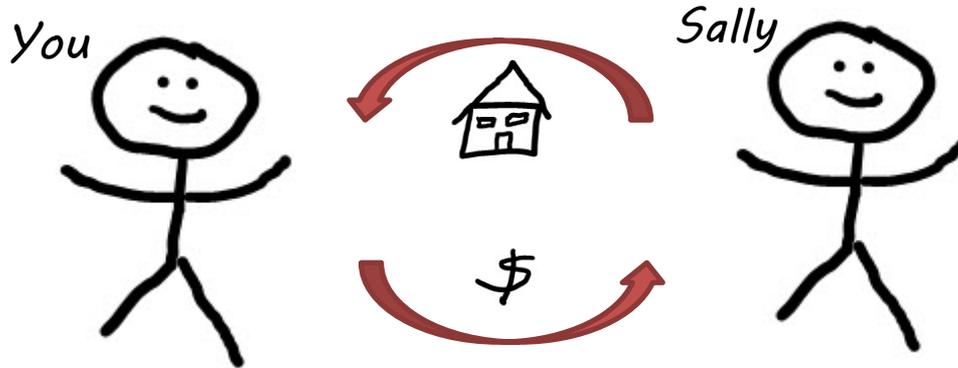
Retail

Full  
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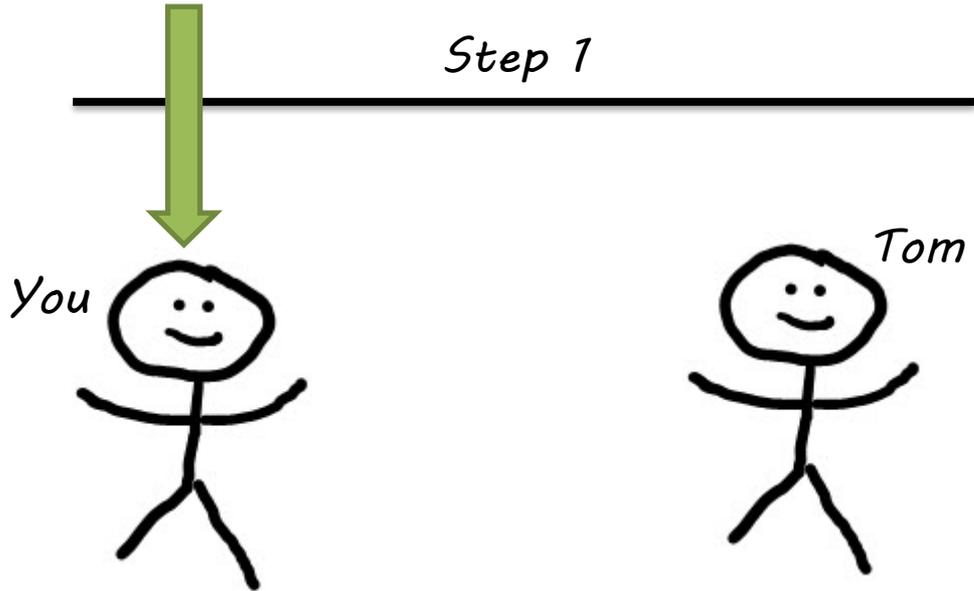
# Assignments



# Assignments



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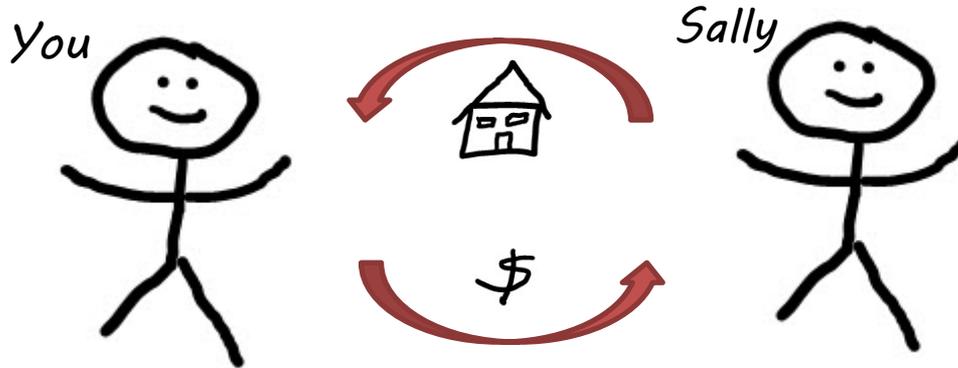
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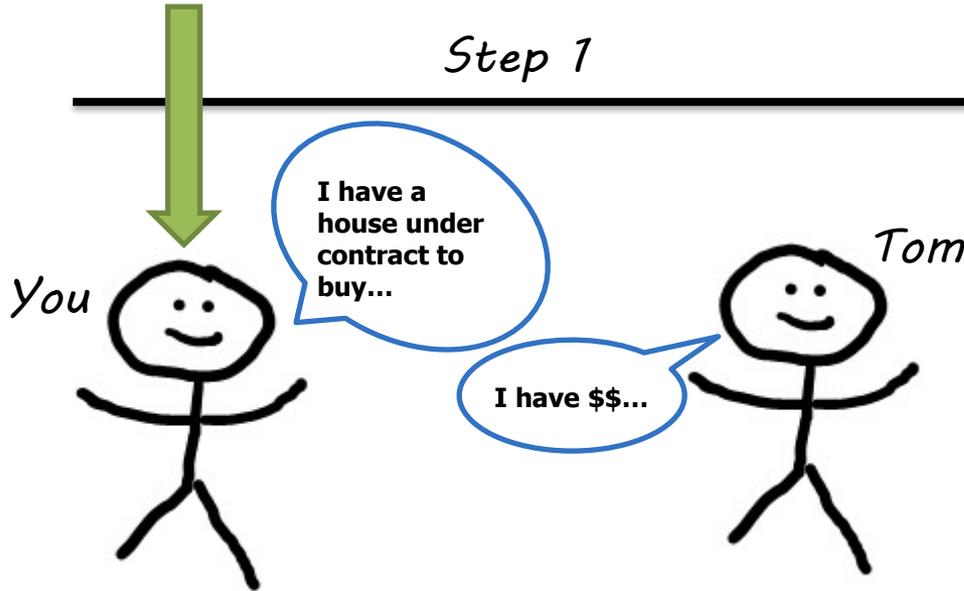
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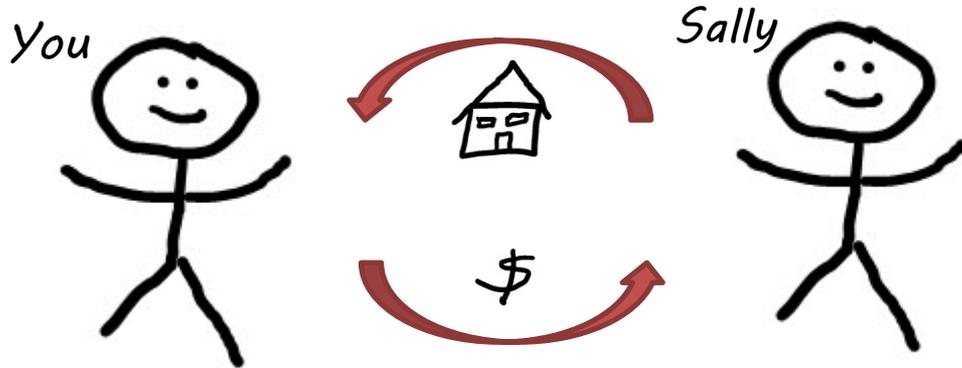
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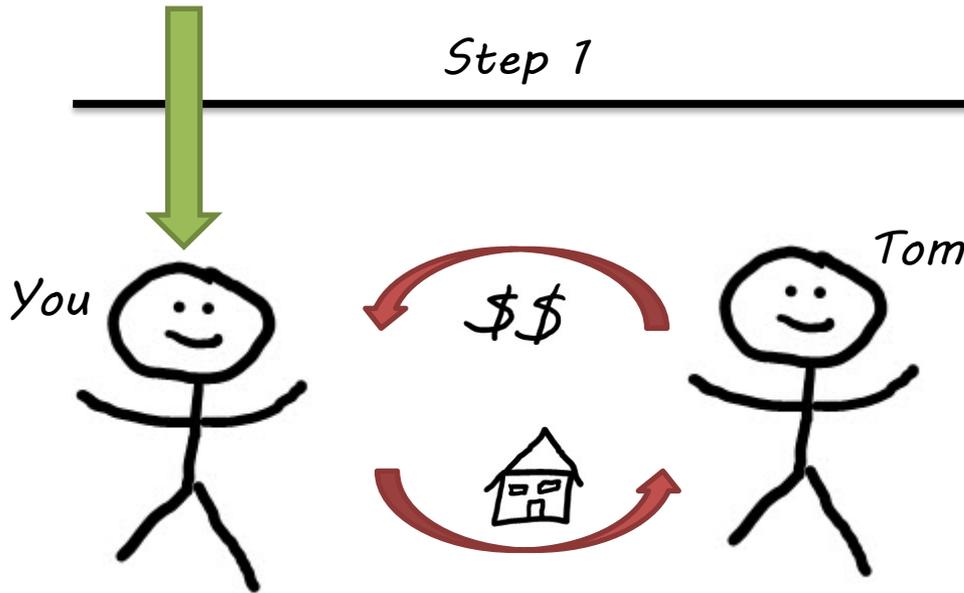
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# Assignments



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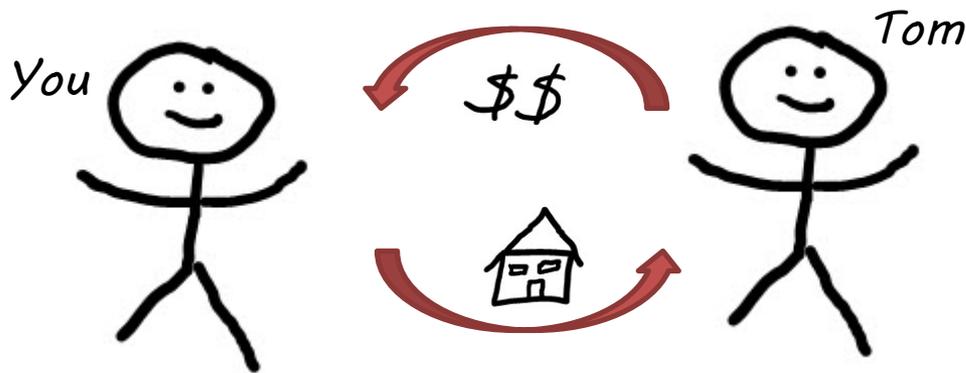
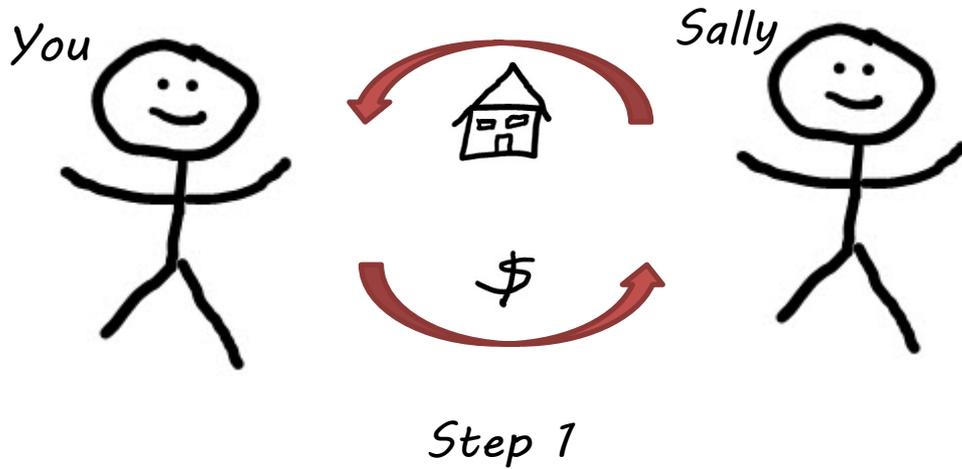
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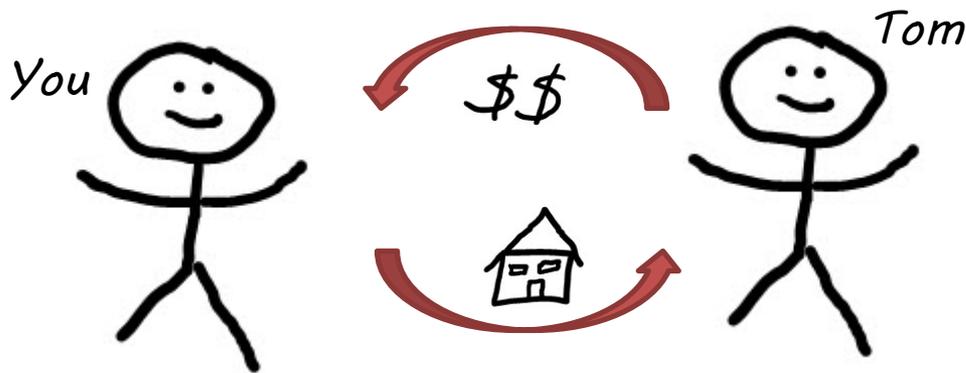
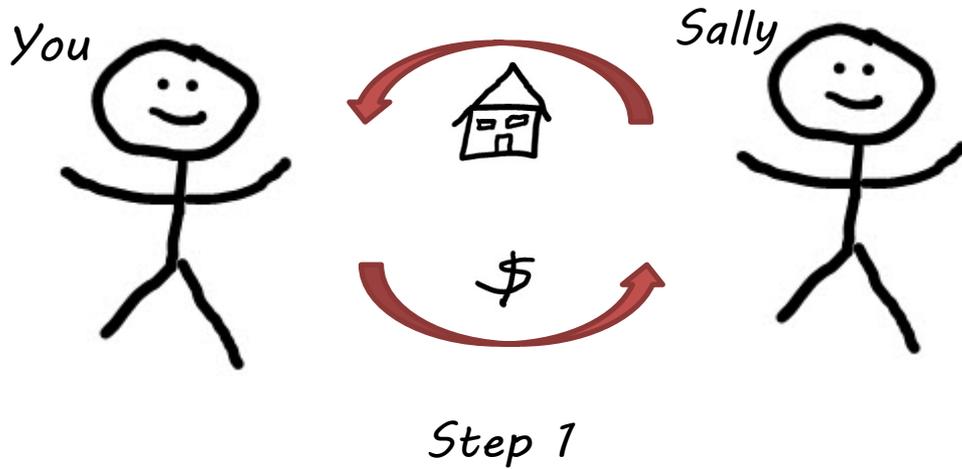


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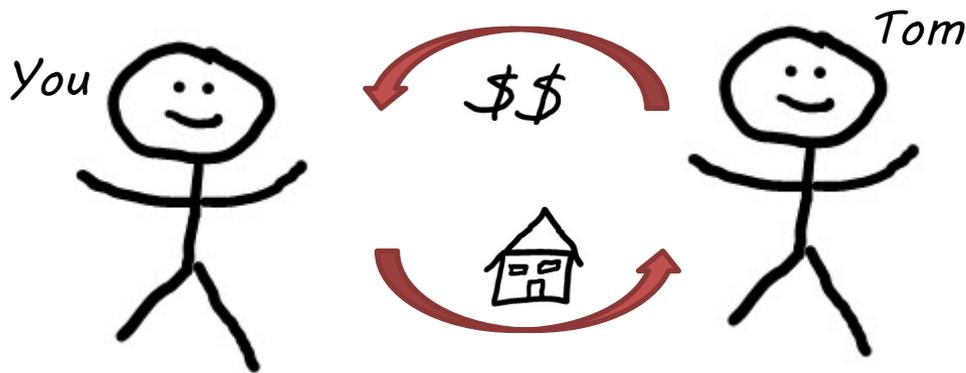
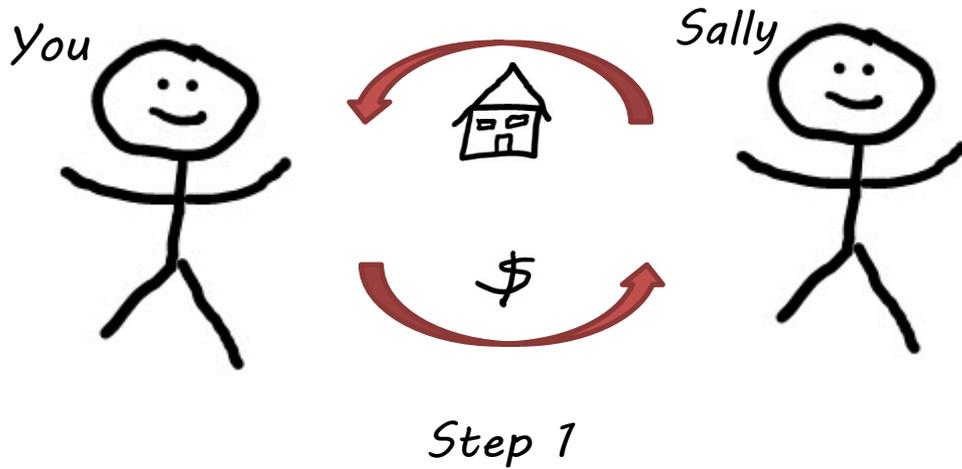


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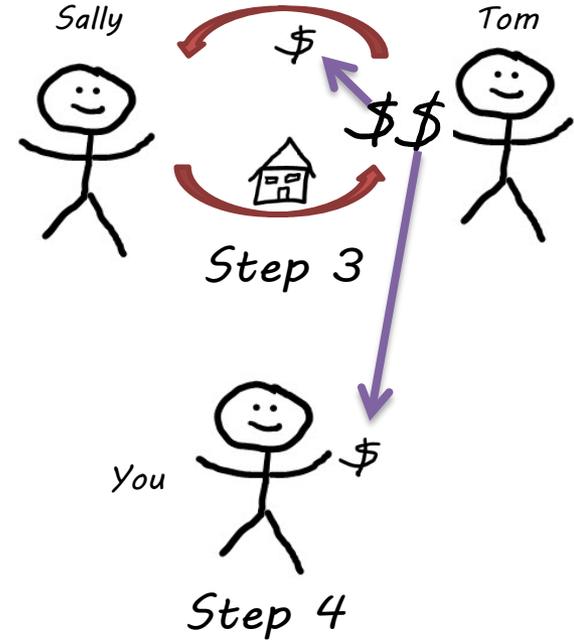
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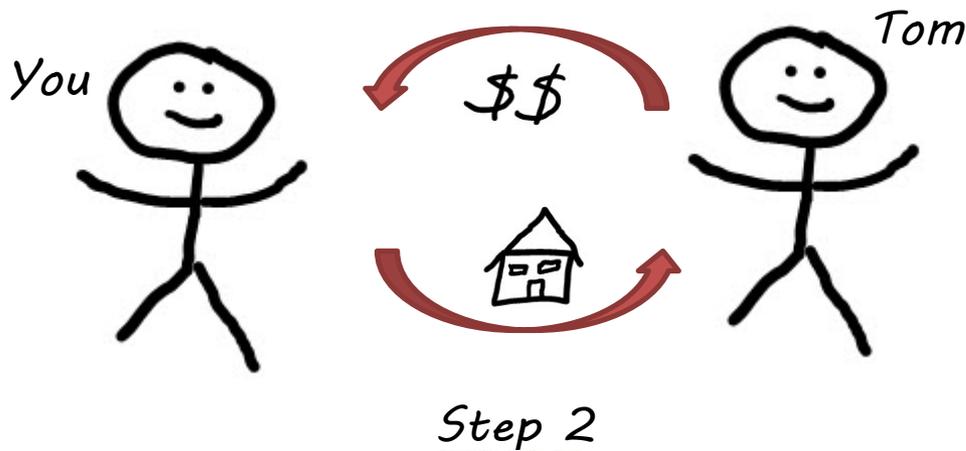
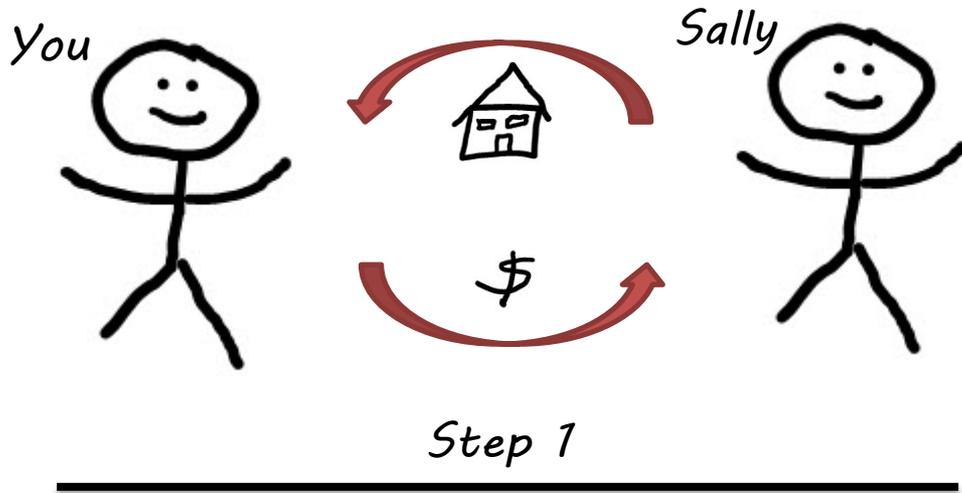
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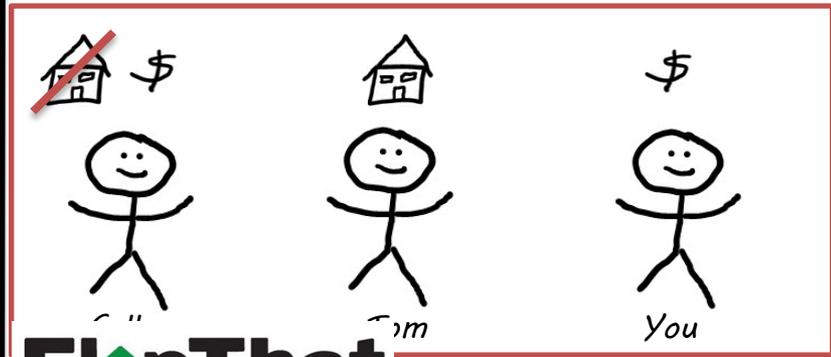
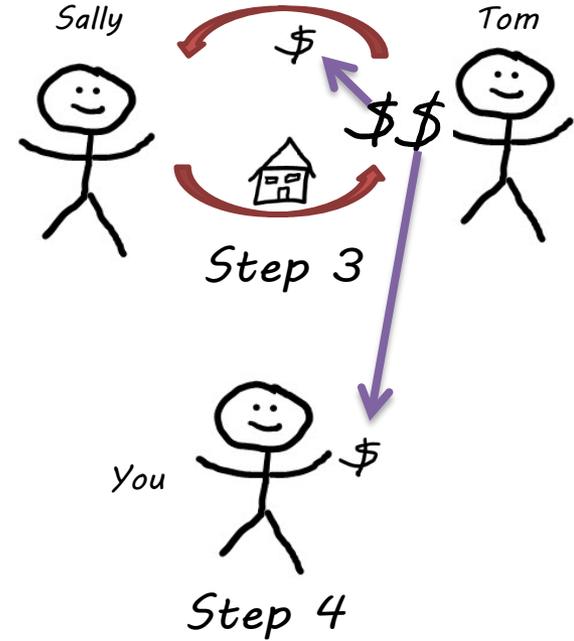
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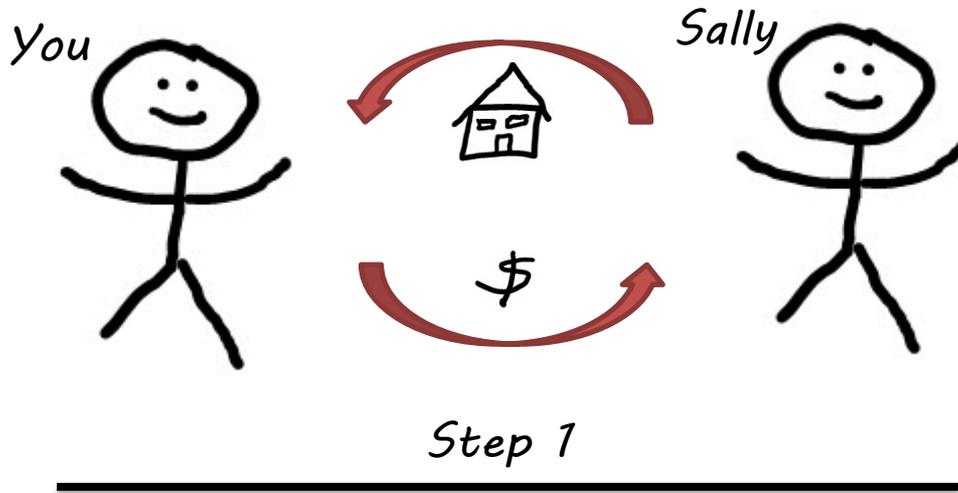
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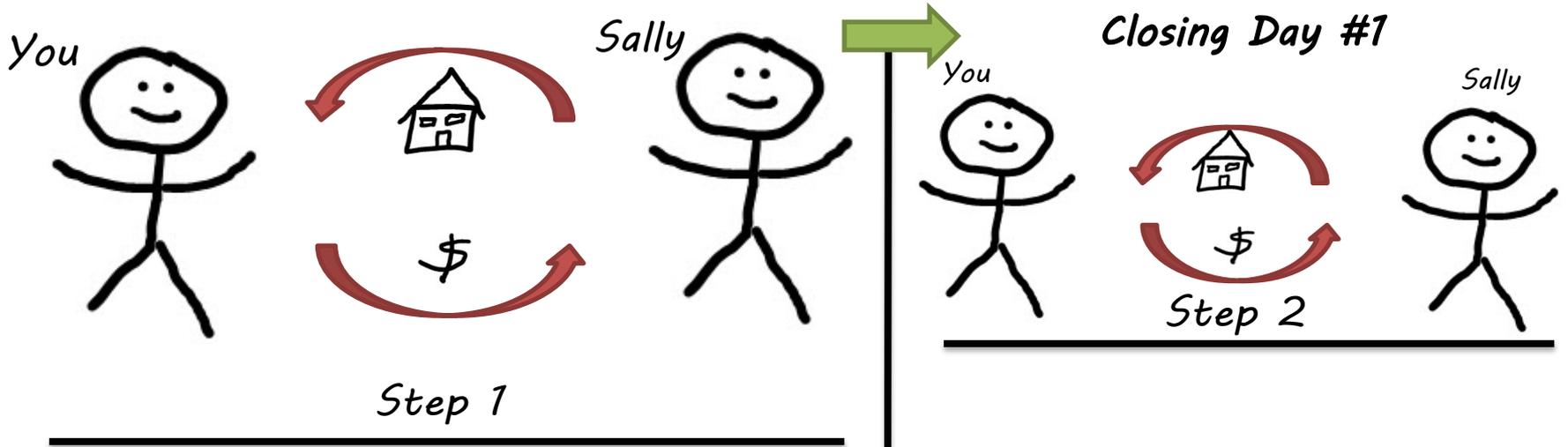
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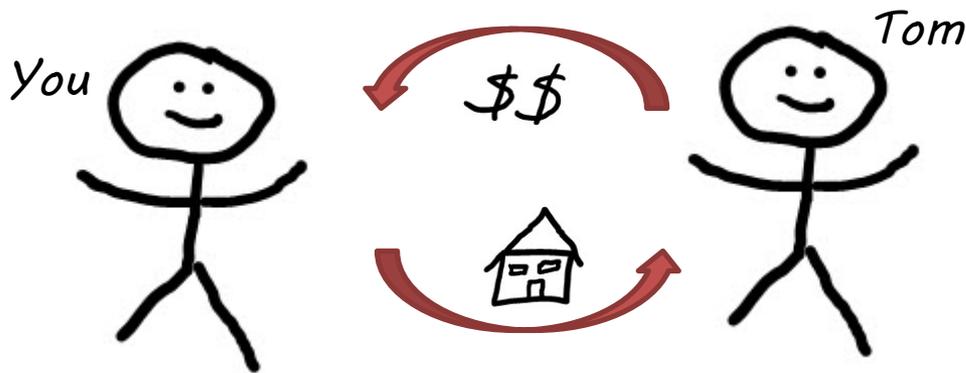
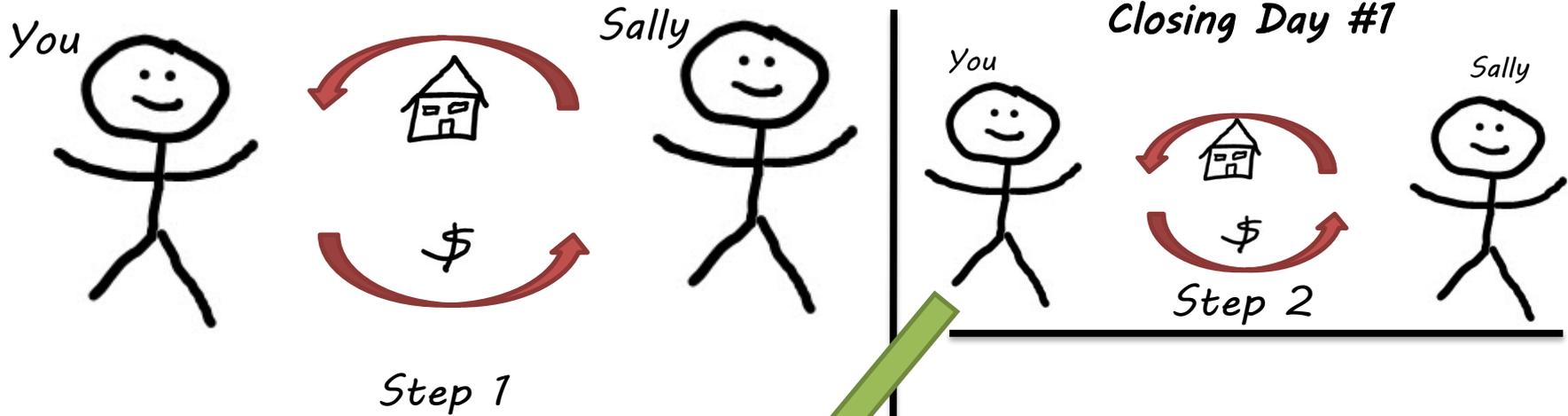
# Wholesale



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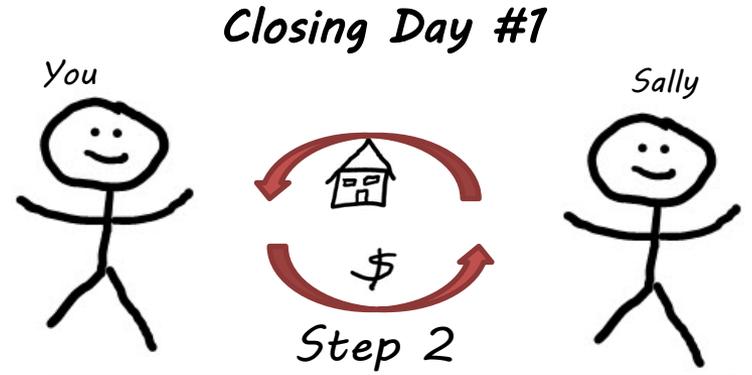
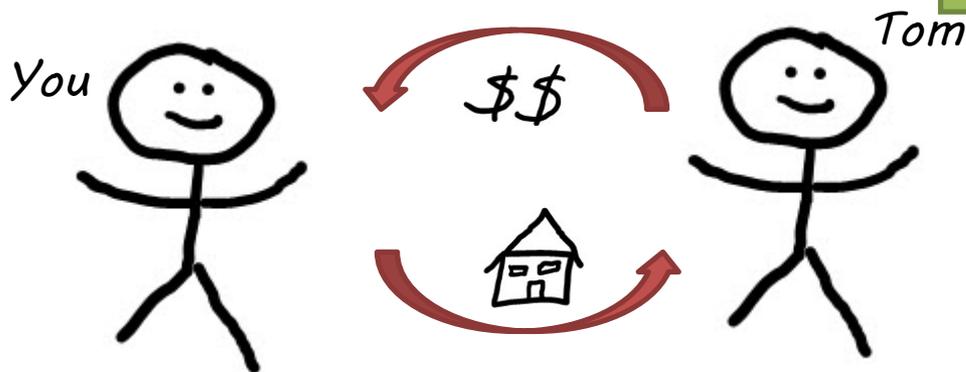
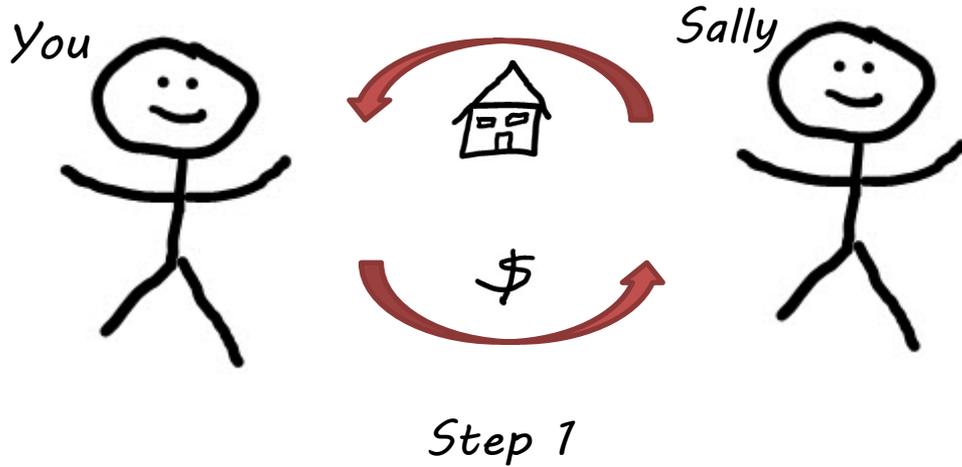


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# Wholesale

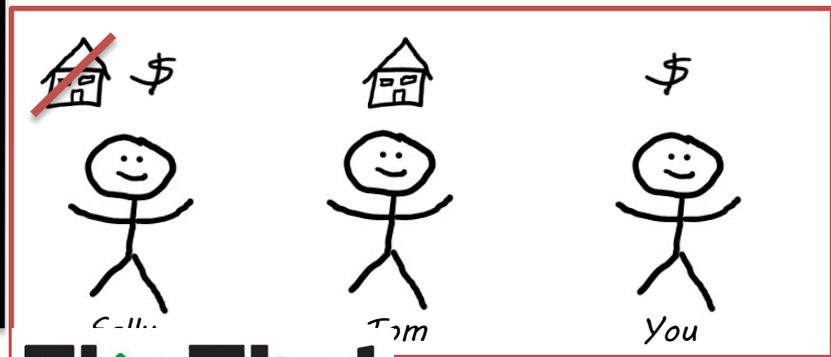
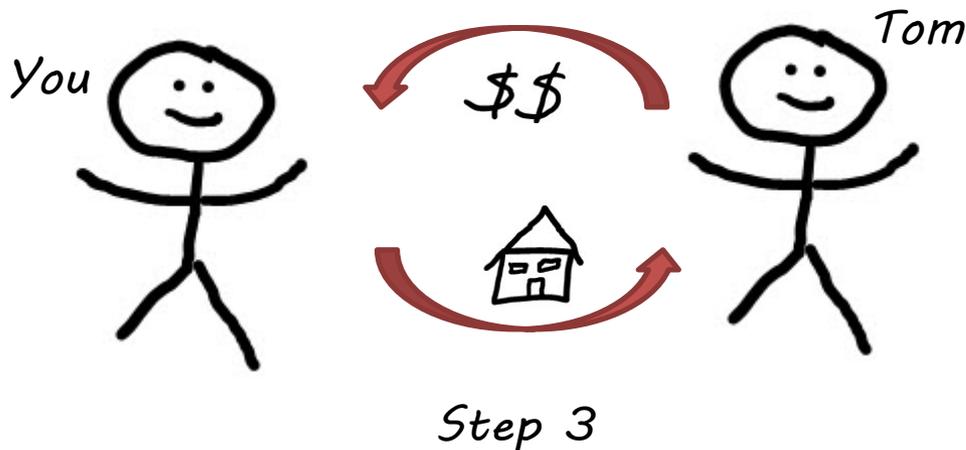
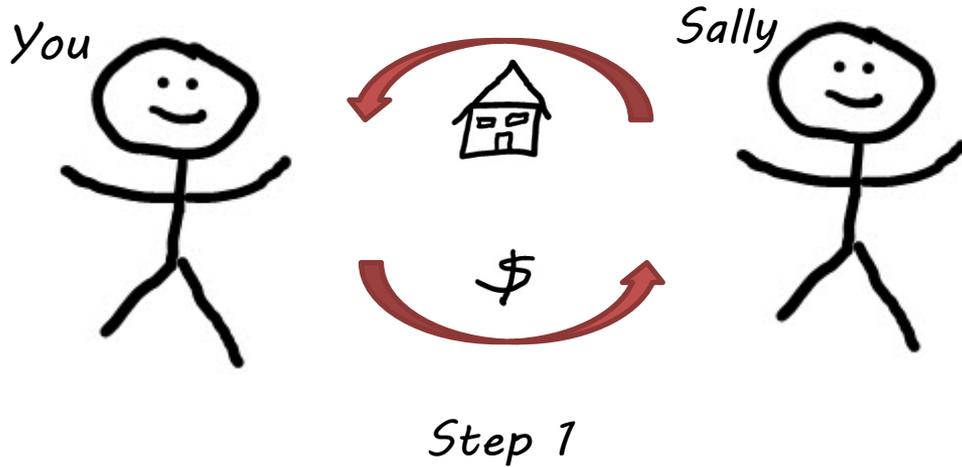


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# Wholesale



# Assignments

## Pros

- You don't own the property
- Almost no risk
- No capital needed
- Quick cash
- Very few people involved

## Cons

- You don't 'own' the property
- You may be leaving money on the table by not rehabbing

# Wholesaling

## Pros

- You Control the Property
- Faster to cash (than rehabbing)
- Appealing to sell to the 'next guy'

## Cons

- You have to Own the Property
  - More Risk
  - Holding Costs
- Things can go wrong

# Why Do Other Investors Buy From Us?

- They're OK paying a mark-up, as long as:
  - The numbers still work for them
  - They didn't have to spend \$ to find the lead
- We make it easy for them
- Some simply want to be the 'retailer'
- Some are putting into a rental portfolio

# Most Common Exit Strategies

- Assigning
- Wholesaling
- Rehabbing (Retailing) ←
- Rentals

# Supply Chain



Raw  
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Factory  
(Adding  
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Logistics  
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Distribution  
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# Supply Chain



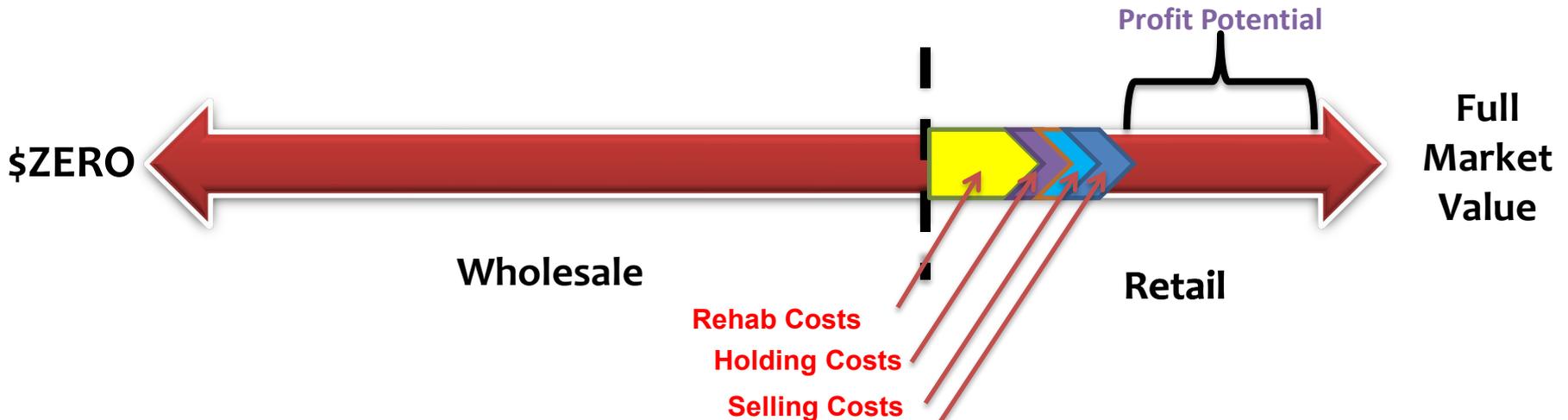
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Rehab Costs  
Holding Costs  
Selling Costs

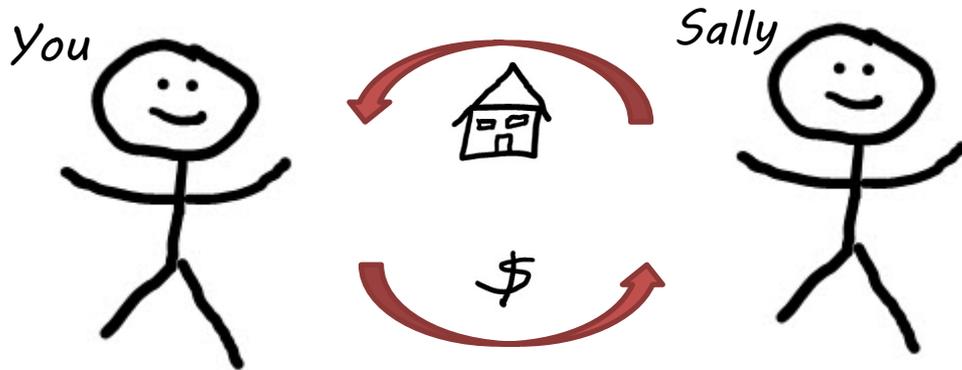
Profit Potential

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Other Cost  
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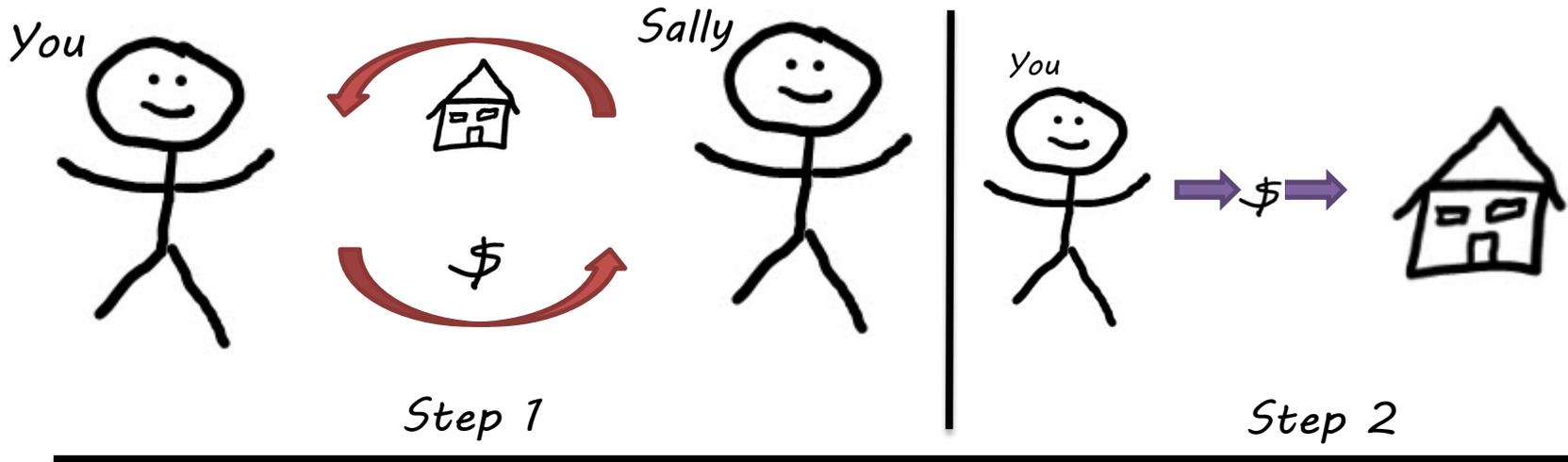
# Rehabbing/Retail



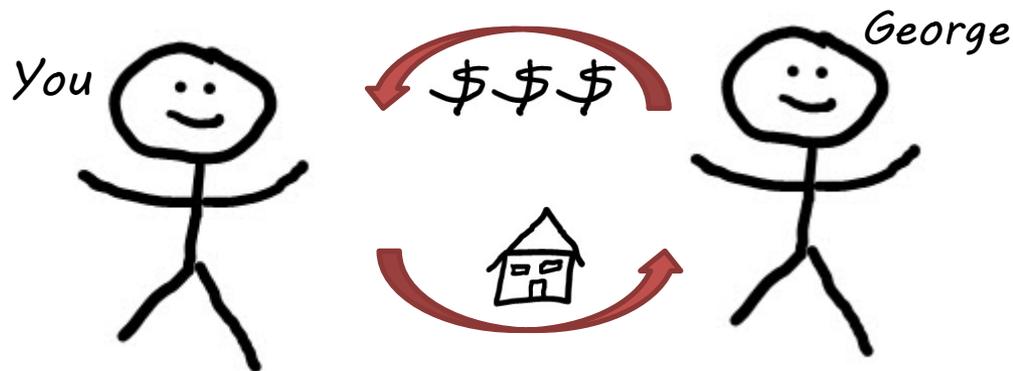
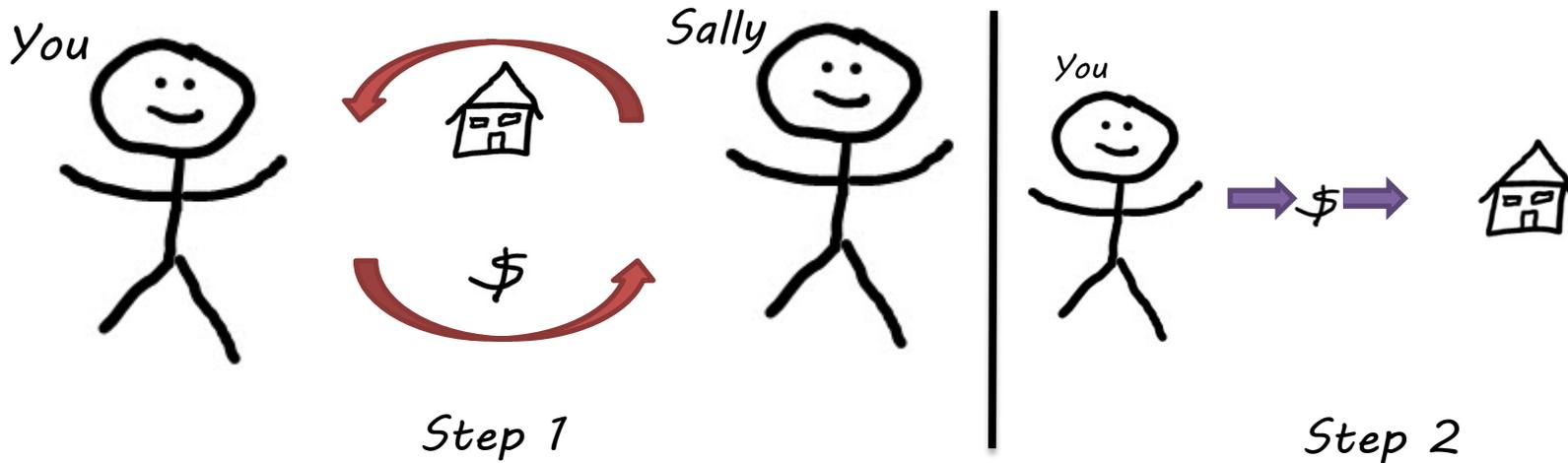
Step 1

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# Rehabbing/Retail



# Rehabbing/Retail



# Rehabbing/Retail

## Pros

- Enjoy the transformation
- May have the most profit potential (not always!)

## Cons

- Lot of Work
- Many things can go wrong
- Markets can change
- Holding Costs
- Lots of people involved:
  - Lenders (to you)
  - RE Agents
  - Lenders (for your buyer)
  - Appraisers & Inspectors
  - City Permit Offices
  - Accountants

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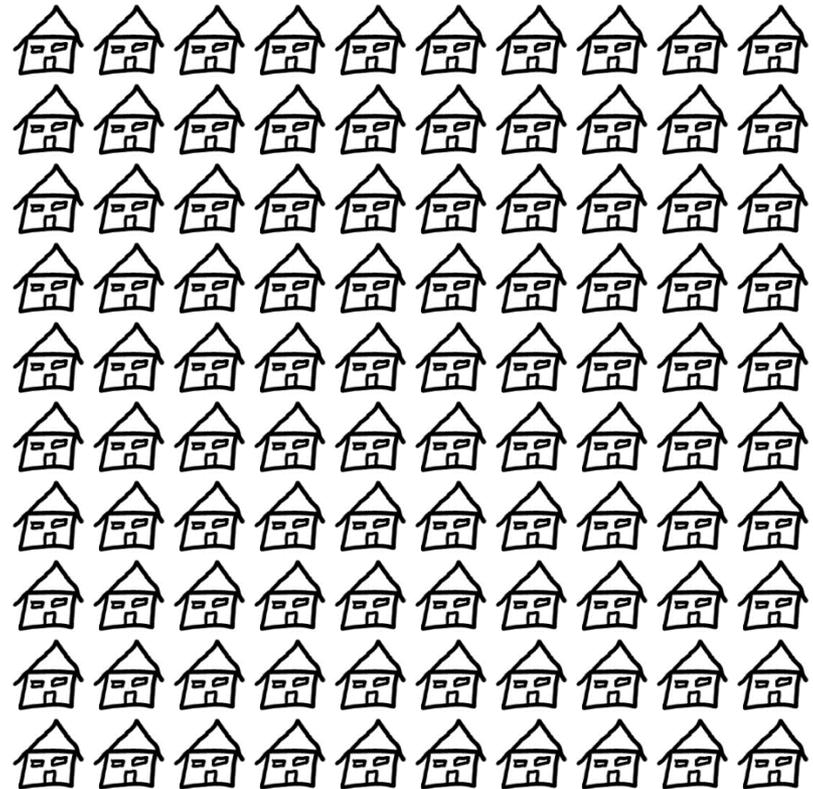
Wholesale

Retail

Full  
Market  
Value

# Rentals

- Many Benefits:
  - Cash Flow
  - Long-Term Appreciation
  - Tax Benefits
- Potential Headaches!



# Rentals

- Types of Markets
  - Immediate Cash Flow
  - Appreciation
  - Speculation
- ‘Classes’ of Rentals
  - “A” – “D”

# Rentals – Types of Markets

- Immediate Cash Flow
  - Markets where you can purchase, repair and rent properties and expect immediate cash flow
  - Rental Income > Mortgage Pymt and Expenses
  - Examples: Texas, Midwest, Southeast
  - General Bad Examples: East and West Coasts, markets that saw huge increases in value: Las Vegas

# Rentals – Types of Markets

- Appreciation
  - Markets where owners purchase properties with expectation of increases in overall value of property, more so than cash flow
  - Rental Income  $\leq$  Expenses
  - Examples: Las Vegas, Phoenix, Florida, East and West Coasts

# Rentals – Types of Markets

- Speculation
  - Markets (of sub-geographies) where owners are betting on something happening to dramatically increase the value of their property
  - In some instances, properties may cash flow as well
  - Examples: Properties near expected commercial development, redevelopment projects, corporate relocation, etc.

# Rentals - Classes

- A – Well above average median price point for market, more selective tenant with higher expectations, generally doesn't cash flow as well.
- B – At or below median price point, generally focused on middle/working class. Tenants are generally stable, less picky. Tend to cash flow well.
- C – May be <75% of median price point for market, or be in less desirable condition than A or B. Cash flows well, but may have 'tenant issues'.
- D – In the Hood. Likely <50% of media price point  
May cash flow great, but harder to manage

# Class A Property

- A is for Appreciation
- 4%+ per annum in the DFW area
- 8%-10% Gross Yield
- Example:
  - 4118 Cheyenne, Rowlett, TX
  - Value: \$125,000
  - \$1,200 FMV rent



# Class B Property

- B is for Both
- 0% - 2% per annum appreciation in the DFW area
- 10% - 12% Gross Yield

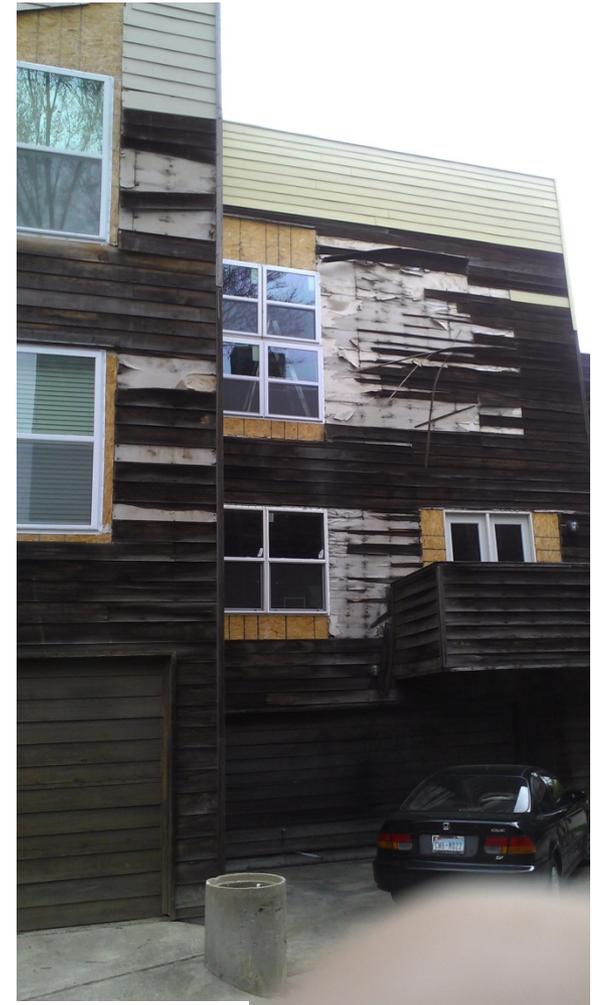
## Example:

- 406 E. Carolyn, Garland, TX
- Value: \$82,000
- \$850/mo FMV rent



# Class C Property

- C is for Cashflow
- -1% - 1% per annum appreciation in the DFW area
- 13%+ Gross Yield
- Example:
  - 14017 Spring Oaks, Balch Springs, TX
  - Value: \$75,000
  - \$850/mo FMV rent



# Class D Property

# DON'T BUY IT!



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# Rentals – Things to Consider

- Shape your rental strategy to match your goals and lifestyle.
  - Long term goals
  - Passive vs active management
  - Eventual exit strategy
- Know that it's ok to learn and change your strategy over time

# Exit Strategies – Wrap Up

- Investing Ain't Easy
- Have a Plan – what are your goals?
- Build a team – you can't do it alone!
- Treat it like a business, not a hobby
- The best way to learn is to get started!

# Money For Deals

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# Private Money

- Interim
  - 75% LTV
  - Note and Deed of Trust
  - First Lien
  - 8% - 12% IO and 1% - 3% in points
- Long-term
  - 70% LTV
  - 10 yr. 6% fixed
  - 20 yr. 6.5% fixed
  - 30 yr. 7% fixed

# Cash Money

- Save IT
- Cash is KING

# Soft Money

- Banks
  - ¾% origination
  - 4% IO!!!!!!
  - \$500 in FEES!
  - Cross collateralization
  - Renewal and Adjustments
  - Financials – Nonstop

# Hard Money

- Asset Based Lending
  - Typically minimal credit requirements
  - Flexible on condition
  - Rates 8% - 12%
  - Points 1% - 5%

# Government Money

- Freddie or Fannie Refinances
  - 1 – 4: 75% LTV
  - 5 – 10: 70% LTV
- Condition important
- Heavy underwriting

# Questions?

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Tim Herriage  
214.607.1227  
tim@timherriage.com