

WHOLESALE

What It Is & How To Do It



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An aerial photograph of a residential neighborhood, showing various houses with different roof colors (red, blue, grey), green lawns, and trees. A road with several cars is visible on the left side. The overall scene is captured from a high angle, providing a comprehensive view of the area.

OVERVIEW

I've heard every excuse in the book as to why people aren't getting into real estate investing. Some people say they just don't want to, and that's fine. I'm not sure why they wouldn't want to utilize this unmatched tool for financial freedom, but I get it. The reasons that don't work for me are people who say they don't have the money or the time. Those seem valid, right? For someone who doesn't know the power of wholesaling, those are real concerns. But I'm here to tell you why wholesaling is perfect for those people who don't think they have the resources or time.



WHAT IS WHOLESALING?

Wholesaling can be an especially useful method of investing for people low on funds or low on time. The process involves buying the contract for a house from Party A, the seller, and selling the contract (and therefore the home) to Party C, the buyer. YOU are Party B, the wholesaler. Party B is perfect for those who have time but not money. Party C is perfect for those who have money but not time.

My number one piece of advice for you, the wholesaler, is this: **SECURE BUYERS FIRST**. Do not purchase wholesale contracts before you have buyers lined up or you increase your risk of losing money.

To find buyers, market and advertise through social media, Craigslist, direct mail, yard signs, and your own website. Sell yourself as the go-to real estate expert in your area. Take advantage of places to put flyers, too. Restaurants, churches, and grocery stores work well.

Seems straightforward enough, right? That's because it is. Does that mean achieving great success in wholesaling is easy? Not necessarily. But doing the right things can make it easier. This eBook is for that exact purpose. Read on and see how we can make this process go smoothly.



THE WHOLESALING PROCESS

Business Structure

The wholesaling process sounds simple on paper, but there are certain twists and turns to navigate and rules to be aware of. If keep your head on a swivel and read up, you can use these rules and regulations to your advantage.

When it comes to structuring your business, there are two major rules you should watch out for to ensure you benefit the most from your wholesale endeavors. They are:

- **Net Listing:** Certain states allow people to participate in wholesaling if they simply possess a real estate agent's license. In these situations, you can enter wholesale deals wherein you act as the agent for Party A, the seller. You agree to a sale price, enter a sales contract, and collect any money the seller earns above the agreed-upon price. If you sell the house to someone who might be flipping, you can easily attempt to act as their agent as well. Win-win for you! If your state doesn't allow this, there's another option.
- **LLC:** I hold most of my properties using an LLC (limited liability corporation) rather than in my own name. The benefit is in the name. By establishing an LLC, you essentially create another taxable individual that holds the property for you. It is taxed separately from you at the state level, and federal tax burden can be passed through to you. You can claim losses and income from your LLC on your personal tax statement, and holding properties in an LLC limits the liability you carry if there are any problems with your property. Just be sure to always sign your documents "Your Name, member (LLC name), LLC" to make sure the property is under your LLC.

A lot can be said about the benefits of LLCs, but the point is this: passive and pass-through income and losses are much easier to handle when tax time comes. You're protected from liability and can deduct the cost of your LLC from net operating income. You can even pay yourself rent if you operate out of one of your rental properties. That's a slam dunk.



FINDING PROPERTIES

Learning which properties to look for and where is the next relevant step in the wholesaling process. It's helpful to note that just because you personally wouldn't live there doesn't mean your buyers wouldn't. Your best bet is to look for homes in decent, middle-class neighborhoods. High- and low-income neighborhoods generally don't have as good of a return as middle-class areas. It's best to be near parks, shopping centers, schools, hospitals, and other public places. Avoid areas where people don't take care of their lawns or houses and run from "war zone" neighborhoods with cars on blocks and boarded up windows.

Property Types

Upon finding the right neighborhoods, look for and decide on which types of properties to target. You have a few options:

- **REO:** Real estate owned, or REO, properties are owned and foreclosed upon by the bank. They're not as plentiful as they used to be, but REO properties are still a solid option.
- **Short Sale:** Short sale properties are in default but have yet to be foreclosed on by the bank. There are a lot of these, but the government and the banks have put up a ton of roadblocks to proper selling, thus creating a LOT of headaches. Short sale properties are still viable, but be prepared to jump through some hoops.
- **Estate Sale:** Estate sale properties ended up in the hands of people who inherited them from their deceased parents or relatives. These are often old and in need of repair, to the dismay of the inheritors of the property. After repeated failures to sell, inheritors may reluctantly turn to you for help. If you can handle the emotional baggage and can turn a good profit based on the risk, these sales can also be an appealing option.
- **Buy Low, Rehab, and Sell:** This last option can be a very strong and profitable option. This depends almost entirely on you, however. If you buy a property intending to rehab it before selling, you HAVE to get a good estimate on rehab costs. In short, proper analyses are crucial.



CONDUCTING ANALYSIS

Once you've decided all of this information, it's time to conduct your analyses. Two types of analysis are ESSENTIAL for proper investments: financial and physical. There are different things to take into account, but here are the basics:

Financial

- **Flipping:** Paring down your target properties is the next step. Using your criteria, search MLS online and narrow that list down to about 30 properties. Drive by each property and cut that down to 10-15. Further narrow the list to seven, and then tour each home until you're down to four. For these four, create your cost and MAO sheets.
- **Renting:** The process for finding rental properties is very similar to the one for flipping. The primary difference is the addition of a cash flow analysis. For assistance with this, visit: <https://www.rentalpropertyreporter.com/resource-center/investment-property-analyzer/>

Physical

Once you have identified properties priced at or below market value for the neighborhoods they are in – and with negotiation you can get the prices down even further – it is time to do the physical inspection (after you do drive-bys) of the property to determine what is needed for rehab and how much it is going to cost. A seasoned contractor can help you with this.

Determining your final costs - using MAO, ARV, and a variety of other tools - is the final step to this process for when you begin to make offers.



MAKING OFFERS

Now's the time to put yourself out there and make your offers to your prospective buyers. To do this and secure the most profit, familiarize yourself with two acronyms:

- **MAO:** Your maximum allowable offer (MAO) is the most you will sell a property for. Be reasonable with this number or you risk losing money or buyers.
- **ARV:** The After Repair Value (ARV) of your property is how much your property is worth after rehab is completed. You or your agent generally arrive at this number by looking at comparable sales in the area. Getting this number right is of the utmost importance to make sure you don't lose money. You NEED to nail this.

MAO is equal to your ARV minus profit margin and rehab costs. It's smart to start out offering less than your MAO to increase your chances of a successful sale. I'd offer 20% less in a competitive market with a lot of inventory. In a tight market, offer 5% less. Always use forms from the Association of Realtors when making offers. Ignore ones from the government or downloaded off of the Internet.



SELLING THE CONTRACT

You finally made it. It's time to start selling! When you are wholesaling you want to create an investor package showcasing your wholesale deal in such a way that it gets attention and appeals to your buyer(s) enough so that they will want to buy it. I suggest creating a brief portfolio with photos, a written description of the property and the surrounding area, and a pro-forma projecting financial results for the buyer of this property.

Ramp up your marketing and advertising through flyers, social media, and your website. You can use Postlets to increase traffic to your pages and appeal to your network of buyers. If for some odd reason you can't find the right buyers, there are plenty of other routes you can take for your property. Flipping, renting, and lease options are the popular ones, but those are topics for a different eBook.

For now, enjoy your newfound wholesale knowledge and success. May God bless you in all of your real estate endeavors, and thank you for reading!