



TRANSCRIPT OF EPISODE 14 OF THE INVEST FOUR MORE PODCAST

Wholesaling – Mark Ferguson

Mark: Hi everyone. Mark Ferguson here with another episode of the Invest More Real Estate podcast. Today is just going to be me, and I'm going to be talking about wholesaling. A lot of my guests have made a lot of money wholesaling real estate; they got started in wholesaling or they continued to wholesale throughout their career. I think a lot of people have an idea of what wholesaling is or at least have an idea about what wholesaling is. But, this episode I really want to dig deep and tell you exactly what is wholesaling, how it works, what's involved, so you have an understanding of what my guests are talking about when they mention wholesaling, you know selling houses or buying houses or even signing contracts.

I had no idea what wholesaling was when I first got into the online real estate investing world and I've been in real estate for 10 years. So I'm sure some of you aren't quite sure what wholesaling is either. So we will go through all of that. I will try to give you the ins and outs of it, positives, negatives, how you can get started if you want to and what to expect if you do try to get started in wholesale. Or, at least you'll have an idea of what people are talking about when they mention wholesaling a house or an apartment building.

So, what is wholesaling? Basically, wholesaling real estate is buying a house or getting a house under contract or selling that house without doing any work to the property, as quickly as you can. A wholesaler is not a rehabber. He's not a flipper. He's not going in there making repairs. He's getting the house bought as cheap as possible, and selling the house most likely to another investor and then taking a profit and moving on to the next deal. He wants in and out as quickly as possible, and he's not trying to flip it, not trying to make maximum profit, he's trying to work as quickly as he can.

Now, why would someone want to wholesale? Well, for starters, it is probably the easiest way to get started in real estate without much money. Now, you're still going to need some money. There is really no way to invest in real estate without money; you've got have something, for marketing, for expenses that pop up. But it is pretty minimal to start in wholesaling and you can do it for very cheap depending on how you go about it. You can send out letters. You can drive for dollars. Many different things that we will get into that cost very little, postage maybe, some marketing dollars, some closing costs possibly when you are selling the properties. But really it is pretty minimal compared to buying a rental property with 20% down or flipping a house that cost \$20-25,000 in rehab plus the carrying cost and everything else involved. It's not just for people looking to get started either.

We've interviewed a couple people, Mark Skaran, who is wholesaling 5 to 15 houses every month and making over \$5,000 on each deal. He's built an extremely profitable business out of

wholesaling. And he has moved on to some flipping now, but for the most part he has no reason to go from wholesaling to something else because he makes so much money wholesaling. I know a couple of other investors in Texas who do the same thing. Shawn Terry, who may be familiar with us, does the same thing with wholesaling. There are a lot of guys out there making a lot of money just wholesaling real estate. So if you hear that wholesaling is just for beginners, it's just a poor man's way to invest in real estate, that's not really true. There is a lot of guys out there making a lot of money just wholesaling.

One thing to be very careful with before we get into this too much more, is the laws and regulations regarding wholesaling. They are different for each state. Always research those before you enter into any kind of real estate business of course. But, the biggest thing I see is wholesalers trying to put a buyer and seller together without being a part of the deal. So if you're out there trying to find a seller who wants to sell their house then you go out and find a cash buyer and you're like "hey, I'll take a small fee and get you guys together and you guys can work out the deal on the contract," if you are not a licensed real estate agent, that is going to be illegal. You are practicing real estate without a license if you are putting together a buyer and seller and you aren't a part of the contract or buying the house yourself. So you can't just go out there and try to put together two parties and let them do the contract themselves. You have to have the house under contract yourself and sign that contract or you have to buy the house and then sell it. That's the only way you can legally wholesale without having a real estate license. If you have a real estate license and you're simply acting as a realtor by putting a buyer and seller together and you'd help with the contract, the buying process, the selling process, all of that.

Alright, so when you're doing an assignment of contract, basically what happens is a wholesaler will find a seller who's most likely motivated to sell their house for cheap for some reason and they will have the seller sign a contract saying I will sell the wholesaler my house for \$50,000. It's usually a short, couple page contract wholesalers will use, very simple. No real estate commissions involved, no realtors involved. There should be a title company or an attorney who handles the actual closing. So there will be some fees the wholesaler might have to pay or the seller might have to pay depending on how it's structured. Usually the wholesaler won't have to do any repairs, they are buying the house as is and quick closing. Once the wholesaler gets that house under contract, they will make sure the contract they're using is assignable, which means they can assign it to another party without the seller's permission. So, the wholesaler can go shop that contract to buyers they may have, cash buyers usually who are investors themselves. Say "hey, I've got this contract on this house, I'd be willing to sell you this house for \$55,000." The wholesaler bought it for \$50,000, then we're going to the end investor saying I'll sell you this contract for \$55,000; the wholesaler takes a \$5,000 profit on the deal. The reason the investor would do this, the investor paying cash for the property, is because the really good wholesalers, the ones who are doing a lot of business are getting very good deals and that investor paying \$55,000 for that property probably could not find a similar property on the MLS or on the market that cheap.

That's the advantage of using a wholesaler; they've got great deals. There are no real estate agents involved so many times you're paying less commissions, less fees, and you can get properties cheaper than if you're buying them from the MLS. So that's how you would assign a contract. Things to watch out for, if you're trying to wholesale properties from the MLS we'll

talk about that here soon. Banks, hut homes, usually short sales cannot be assigned. You have to use the bank's contracts, the hut contract specifically states the contracts cannot be assigned. There's no way you can assign those contracts, you have to buy the house and sell it, which we will talk about now. So the second way most wholesalers will buy and sell properties is they will get a contract on the house, just like we stated, and then they will buy the house and sell it extremely quickly.

Many times the wholesalers will use a double close so they don't have to use their own money, their own financing on the deal. Double close is a little tricky, it can be very confusing to people who are in the business and it can be very confusing to even title companies and real estate agents who are not used to what a double close is and how it works. Basically, the seller of the house will have a contract to sell the house to the wholesaler. The wholesaler will then enter into the contract to sell the house to the buyer, the end buyer the investor with cash, on the same day. So, the seller may sell the house to the wholesaler at 10 a.m. At 11 a.m. the investor comes in and the wholesaler sells the house to the end investor. Some title companies who are familiar with this practice will take the money from the end investor, who's paying cash \$55,000, and they will use that to pay the first seller who was selling the house for \$50,000. So in that case the double close in the same day, the wholesaler does not have to bring in their own money. They aren't actually paying for the house themselves; the end investor is paying the original seller. That's a little tricky, a little confusing. Most title companies will not do double closes but there are some who will.

Again, always check your laws, the legal status to be able to do this. But most states, most wholesalers I talk to who do double closes quite a bit don't have an issue with it. That's another way you could buy hut homes, buy REO's, and close them on the same day using investor's money and not your own to buy the property and sell it very quickly. Another way some wholesalers work is they will have their own money. Many of them I talk to on podcast, they'll say "my intention is to wholesale this house. I believe I can sell it for more than I bought it for very quickly. However if something goes wrong, if something pops up with the house, I fully intend to buy it myself and use it as a rental, whatever," or hold onto it as long as they have to because they made a contract with the seller. They want to honor their contract. They're not just trying to make a quick buck and then get out with no money of their own. They've built up their business when they have the cash, and they have the financing to buy these properties if they have to. So you can wholesale using your own money, obviously. You can use cash, financing, to buy the property. In those cases, you don't have to do a double close the same day. You can wait a couple of days, maybe a couple of weeks or months, who knows how long it takes to sell the property. And that's another way to wholesale.

One other new term I'll speak on quickly, that's just popped up, "wholetaling." So this is a little different. It's not quite selling a property without doing any repairs at all but this is where you buy the property, maybe the house has a bad foundation, maybe it has some mold problem, some major physical flaw, material defect in the home that is causing the value to be much lower than if it were in good shape. A wholesaler or rehabber might go in there and fix that major issue and that's it. So say the house needs carpet, paint, windows, doors, all kinds of different things, but the foundation is bad so nobody will touch it. The rehabber might go in there fix the foundation, get that done, not do any of the other work. Leave that for another investor and then sell the

property by fixing that major flaw so it doesn't scare everybody off. So that's wholesaling; doing partial repairs or just enough repairs to get a property in better condition to sell so you can make your money, get out somewhat quickly, but you're not spending months on a huge rehab. Maybe you're just spending a couple of weeks in a minor rehab.

Alright, so that's the basic on wholesaling and a little bit on wholesaling.

How do wholesalers find deals? That's really the key to a good wholesaler is finding awesome deals that other investors cannot find themselves. Because, really, what's the point of going out there and buying houses if anybody can go out there and buy a house for the same price. There's no reason to use a wholesaler. They would use an agent to wholesale on the MLS, much easier to do in only cash and it's considered safer by most buyers. However, if you can get a property 10%-20% less than on the MLS, that is where wholesalers have their advantage. So wholesalers do use the MLS, I've seen that some but it's tougher, definitely tougher than doing direct marketing, which we will talk about.

So wholesaling from the MLS is pretty self-explanatory. You find properties on the MLS with good deals or maybe you're making below offers on some properties, getting them under contract with a price that you think is a good deal and then turning around and trying to wholesale those properties to your investors. Maybe even wholesaling on MLS but that's a little tougher because you're paying commissions, fees, and people just see the houses listed on MLS. Many people are turned off by the idea of wholesaling on MLS or buying a wholesale property that was bought on the MLS because they figure "oh, it's on MLS. I can buy anything on MLS so why would I buy that property from you?" I understand their point but, it all comes down to once you have a house that's under contract, you get the house from MLS and it's under contract, no one else can buy it at that point, if you follow through on your contract. Technically, yes, they could have bought the house through the MLS but they didn't. You have it under contract, you have the right to sign the contract possibly or sell the house after you buy it. You can't undermine your contract and offer the seller more money after it's signed. While the investor who is a little put off by buying a wholesale property that was bought through the MLS can say yeah I can get that deal on MLS, truth is they didn't and it's not available. And if it really is a great deal then who cares where the property was originally bought from. What I care about is can I still make money with it, is it still a good deal, is it better than anything else I can get on MLS right now. So it is definitely tougher on MLS because you have to overcome that mindset and unless you're only buying needle in the haystack properties, you're making low offers and they're getting accepted, it is going to be hard to get those really great deals from the MLS, especially when other investors can see the MLS and can buy those properties too, before you get a chance at them. That is possible.

Second main way wholesalers will get their deals is direct marketing. So I just wrote an article about how to market to sellers directly motivated sellers, and basically what you're doing is trying to find houses, property owners that do not have their houses for sale, but would be motivated to sell. You're trying to get in contact with them, make them an offer, and buy their house for less than market value or whatever it is. Many people give real estate investors a bad name because the direct marketing, because of buying properties off market. It's kind of seen as well like you're stealing money from an old ladies, buying their properties for 50 cents on the

dollar, and I know there is some of that that goes on. There are some bad apples out there who give other investors a bad name but the bottom line is some people just don't want to sell their houses on the MLS. I've met a few that, for whatever reason, they are embarrassed by the condition, they don't want people to show it. I've had that happen in this state where a gentleman's mother was living there, it wasn't cleaned for many, many years. The house is just a mess. He didn't want anyone to know it was for sale. He didn't want anybody to know anything about it. He just wanted it sold quietly and quickly and we came to a deal.

Other people might need cash very fast, 15 days, and sometimes a wholesaler can get that done very quickly and get that bought right away where putting it on MLS takes more time. You've got a better chance of the contract falling through, inspection issues, appraisal issues, etc., that the good wholesalers will not deal. Some properties have major flaws, foundations, some major repairs, and really they aren't going to get that much money from the MLS because they'd be selling it to a fixer upper anyway and they'd be selling it directly to a wholesaler, directly to an investor without those real estate commissions. And there are some cases where people just give up. They don't even want to go through the effort of finding an agent. They don't want to list it. They just want to be done with it as quickly as possible. Take it off my hands and be done. So there are cases where people want to sell their house without getting the most money they can.

When I do some direct marketing, I have bought houses off market, I'm a real estate agent so I always have to disclose that. I also disclose buying the property below market value, and I may make a profit off of it. I always have that signed, in writing, by the seller so there is no misunderstanding. But, really when you explain to the seller that there is no real estate commissions, no fix up costs, no appraisal, all of those things, if they are really motivated and don't want the house listed, then they are usually fine selling the house below market value. They see why they aren't selling it on the MLS, it makes sense if you explain it right and you aren't trying to just really rip them off. We always try to give as fair of an offer as we can so that we're protected to make money and then we're not just stealing from them as well. So finding these sellers is the really tricky part, where you're going to spend your money, where it's going to take time, and where most of your time and effort is going to go. Now there's a few ways to do it, direct mail is one way that we do it. We send letters out to absentee owners, sending letters out to inherited properties, to pre-foreclosure lists sometimes, and sometimes to vacant properties. So we just send a letter that says "hey, we buy properties for cash" or "I buy properties for cash," "I buy properties in northern Colorado. I have rental properties, flips," there's a few different letters we use that basically say we close quickly, no real estate agent commissions, no closing costs, no repairs need to be done. We'd love to talk to you about possibly buying your house, give me a call or check out my website.

We do, actually, get a pretty decent response. We get our lists from a company that provides the inherited list or list source provides absentee owners. We bought a few houses that way and also listed quite a few houses that way because we're real estate agents. I can give people the option of "hey, you can sell your house to me now with no repairs, no MLS, no worrying about anything for this much," or if your main motivation is money and you want more money, we can list the house for you for this much and this is how much it would cost, this is what the costs will be, here's what you'll get out of listing the home. If the house is in decent shape, they are going to make more money listing it in most cases. If the house is in really bad shape, sometimes we're

pretty close in what we'll get out of listing it and what we can pay for it as a rehab project. So those letters get sent out. There's a great company, actually, who will do all of your direct marketing for you, as far as mailings. They make the letters. They source lists, they do everything for you. I've got a link to the blog post for that, if you're interested in them. It's yellowletters.com and if you use my promo code you can get a 10% discount so check that out and investfourmore.com is the promo code, but it's also on the blog page here.

Another way to market is bandit signs. Bandit signs are those little signs you see on the street corners that say "we buy houses for cash" or I've seen "we buy moldy houses" or "we buy buyer damage houses," they're trying to get the attention of people who have a house to sell, they want to get rid of it ASAP. Those signs can do okay. I've heard of many people who do great with those signs. I've heard of many people who get absolutely no response to those signs. It's just something you have to try out. I don't use them because as an agent there is some confusion as to whether I have to put my real estate company name and number and all that on there. So I just don't do bandit signs. It's easier that way. From what I've heard in my area, I've talked to a number of investors and nobody is getting deals from those bandit signs. That doesn't mean they don't work but that's just what I've been hearing in my area.

Billboards, you see the "we buy ugly houses" guys, "we buy cash houses" on those big billboards. Usually, they are trying to find off market sellers to wholesale or flip. When you're doing this direct marketing you don't have to wholesale the property, you can buy it as a rental property, you can buy it as a flip, or you can buy it as your own personal residence if you want. This is how many wholesalers find their deals is by direct marketing. Websites. We talked to Danny Johnson last week and he talked about how he built his website to find motivated sellers. He sends them there through his direct mailing. Also, he's built his website so that people searching online for how to sell houses quickly, how to get rid of it, will find his website in their area and then he gets direct leads without having to send out mailings, having to call anybody, they just come right in. So that's fantastic way to drive business in. The link to Danny's program as well is on the blog post.

Then, driving for dollars is another great way to find properties. Simply, drive around the areas you want to buy in and look for vacant houses or houses that look like they've been neglected for a long time, write down the address, and try to figure out who the owner is. Look at public records, try and send them a letter. If you can find their phone number, try and call them. Contact them and say "hey, I know you own this house that is vacant. Are you interested in selling it?" Just start talking to them. It just takes experience and a few times talking to motivated sellers before you realize you just need to talk to them and get the conversation rolling and you can tell how motivated they are, and is it a possible lead or not. You will find many of the people who call you back on the direct mail, the bandit sign they aren't really motivated sellers. They're sellers looking to get full retail value without paying a real estate commission, so they aren't really the people you want. The people you want are the ones who want out quickly or have houses that really need work. That's where you'll find the good deals.

Alright, so, once you've found these deals and get the house under contract, you're negotiating, you have to find your buyers. So most wholesalers don't just take these and list them on MLS because then they have to pay a real estate agent, they lose a bunch of their profit. And, you can't

list a house on the MLS if you just have a contract on it. You have to own the house to list it on the MLS. If you're assigning contracts, you can't even list them on the MLS and you have to wait to buy the home to list it on the MLS and that's if you buy it. So you can't really do a double close. You can't do the assignment of contract if you're listing houses on the MLS. That means a wholesaler has to find their own buyers, and have their own buyers. It's just as important as being able to find good deals is having good cash buyers. So the first thing you need to know is obviously how much are your cash buyers willing to pay for properties? If you're getting houses that are worth \$100,000, you're getting them under contract for \$90,000, and you're trying to market them to investors as being a great deal as \$95,000 but it's worth \$100,000, you're not going to do any wholesaling on this. There is probably no investor out there who wants to buy a wholesale house for \$5,000 less than market. They want good deals. If you're flipping, you're going to want things at least 70% of market value and if they need a lot of work it's going to be less than that. Rental property owners want some great cash flow, they are going to want to buy them way below market value. There's really no motivation for an investor to buy a wholesale deal if it's 5% or even 10% below market. Usually they're looking at 15-20% or more below market value, depending on how much work it needs, depending on what your angle is. So finding those investors is key and knowing how much they'll pay is key because if you've got properties overpriced, you're never going to sell it no matter how many buyers you have on your list.

Finding buyers, really searching for cash buyers is key. There are many ways to do it, going to auction sales, trustee sales; those are going to be cash buyers. Start talking to people, look at public records, or look at the most recent sales in your area. Who is buying for cash? Search through all the records to find that. Sometimes you can search through the MLS to see where those cash buyers are. There's also some programs available called Skiptracing, which will automatically do that for you but it can be kind of expensive. Honestly I've never tried them out myself so I can't recommend any. But there is an option there to save you time from skimming through every single sale. Alright, so once you've got your buyers list, you've got a house under contract, then you can market the property to your buyers and see who's interested. If your buyers are buying them then obviously you've got good deals that are in demand then keep doing what you're doing. If your buyers aren't buying them either they aren't good enough deals, they aren't priced low enough, or your buyers aren't real cash buyers. Maybe they said they were real buyers but they aren't really buying or buying in your area.

So, many people talked about getting started in real estate by wholesaling. That's the best way to start. The best way to get going. When I first learned about wholesaling, I thought man that seems like a lot of work, that doesn't seem like a good way to invest in real estate, it didn't seem like that great of a way to get started. And, honestly, I was wrong in the beginning because I didn't understand how wholesaling worked. I didn't really understand all there was to it and how people were finding their deals, finding their buyers, etc. But I think wholesale is a really good way to get started in the business especially if you don't have much money. Because you can market really using your time, driving for dollars, sending out letters, it's going to cost you some money. But, it's not going to be super expensive and it's going to teach you some awesome skills along the way. If you can find a way to get great deals that other buyers can't in your market, then you're always going to have a valuable commodity. You're going to be able to make money if you can find deals, and that is what it comes down to. Learning how to do that is key and it

takes time and experience. It's not going to happen overnight, so the sooner you can get started and get some experience doing these things, the better off you're going to be. Talking to sellers, same thing, it just takes experience. You're going to fail, I shouldn't say fail, but you're not going to have people buying or selling from you all the time. You're going to have people that say no. You have to learn to deal with it and talk to people the best you can. Gain experience and get better and better.

Even as you progress into more success, some people will use wholesaling and change from selling those properties to investors to flipping them themselves, if they're good enough deals. Some wholesalers will continue to wholesale most of their properties, maybe cherry pick the ones they are going to make the most money flipping. Some will keep wholesaling over and over again, all day long. The one problem I have with that is, if it is a job, you're not building this long term wealth, if you're just wholesaling everything, if you're not keeping any rentals, if you're not investing in something.

That's about it for wholesaling, the keys are really finding the deals. If you can find great deals, that's a key to any type of real estate investing because that is where the money is made. Finding great buyers, which can be tricky, but if you can find great buyers, who pay in cash, that is the key to your business.

One thing I didn't touch on or think about it, why do the buyers have to pay cash? Why can't they use financing? Well, if you're going to be wholesaling properties, using assigning contract, you're probably going to have 30-45 days at the most to find a buyer to assign that contract, and that's the absolutely most. Usually, these end investors are going to have 10-15 days to close. That's not enough time to financing. They have to have cash, a line of credit, or some way to close on the property very quickly, with an assignment. Secondly, many banks don't want to see that assignment of contract, they don't want to loan them that contract. They want to see a full state contract, made up by a realtor to finance the property. Now, if you're doing a double close, obviously that buyer is buying that house the same day that you buy it. There's no way they can have another contract on the house before you buy it, they have to have cash, that day, ready to go. They can't finance it, so you really have to find buyers with cash, not just investor buyers who can put 20-25% down. You really need cash buyers when you're wholesaling.

Alright, so now that I covered that. Wholesaling is not as bad as many people make it out to be. It's a lot of work, but so is anything that's worthwhile. Anything investing, if you want to make money, I've got a couple different suggestions for programs, for different coaching and teaching if you want to learn wholesale. I've got blog pages on those. Rehab Evaluator is a great tool that lets you estimate how much you can pay for a house, sell it to an end buyer and how that buyer will pay for it. Flip to Freedom is another program that teaches all the ins and outs of wholesaling. All the way from start to finish, how to build your buyers list, how to market, how to do a contract, and everything. It's a great program. I read through and watched most of the videos myself, learned a lot from it. There's a lot of resources out there and a lot of investors who are doing wholesaling, being very successful and making it big.

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