WRITING THE OFFER

Legal Information Is Not the Same as Legal Advice

This booklet provides information about Real Estate investing, private money borrowing, lending, and/or brokering. It is intended to help users safely determine their own legal needs. Please understand that legal information is not the same as legal advice. The application of law varies with an individual's specific circumstances. Laws vary from state to state and are in constant change, and although we do everything we can to make sure our information is accurate and useful, we recommend you consult a lawyer if you want professional assurance that this information, and your interpretation of it, is appropriate to your particular situation.

Printed and bound in the United States.

WRITING THE OFFER

Get the Deal Under Contract

Are You Writing Enough Offers to Fill Up Your Pipeline? Writing offers weekly is a critical step in your real estate investment business. It is so important that it is written into the rule of 56. The standard is a minimum of 2 offers a week.

Even if you have an offer that has been accepted, you need to continue the discipline of writing offers weekly. This will benefit you in the long run by taking the pressure off and allowing you to cherry pick only the best deals, allow you the freedom to wholesale off excess deals for quick cash and keep your business consistently growing instead of running hot and cold.

For maximum and massive returns you have to have multiple offers in the pipeline at ALL times. Always employ the 1 in 50 or 1 in 100 principle.

Why Get the Deal Under Contract

A Contract Will:
- Secure the property so no one else can steal it out from under you
- Give you time to look over the property
- Give the lender peace of mind that the deal won't fall through

Steps to Putting the House Under Contract

- Step 1: Prospect and Review Potential Properties
- Step 2: Write Offers
- Step 3: Get the Offer Accepted by the Seller
- Step 4: Put Earnest Money into Escrow to Complete the Contract

How Do I Determine Value?

The three most common methods of determine the value of a property are through an appraisal, the assessed value, or a Comparable Market Analysis. A brief description of each, along with the advantages or disadvantages, is outlined below.

WRITING THE OFFER

Appraised Value

While the most accurate method of determining a property's value is to hire a licensed independent appraiser to do a full appraisal, it can run in the neighborhood of $330 to $500 for an appraisal report, and the cost can be prohibitive if you are tracking several properties.

Assessed Value

The county assessors may have assigned what is referred to as a "market" value, but take into consideration that 1) the original assessed value may have been appealed by the homeowner to lower their property taxes and could be quite a bit lower than the true market value; and 2) this value may have been established several months before and may not reflect current market conditions.

Comparable Market Analysis

The least expensive method of determining fair market value is to canvas the neighborhood for sales of similar properties within the last six months. The best resource for this type of information is your local Multiple Listing Service. If you are working with a licensed real estate agent, they should have access to this information and can create reports showing all sales within a radius of the subject property over a given period of time, or a more specific report called a CMA (Comparable Market Analysis) can be done quite easily. The CMA will allow you to pick and choose which properties you are comparing to the subject property and an Average Adjusted Value will be calculated for your subject property. This figure is not an absolute value, but it can be used as a reasonably accurate number.

Once you have established a value for the property, the next step is determining what is owed against the property to be able to classify it as either an equity deal or a short sale candidate. Equity deals will have a significantly greater value than what is outstanding in loans, liens or delinquent taxes. Short sales will be upside-down, in other words, there will be more owing on the property than it is worth.

Recognizing A Good Deal

You have used one of the methods above to establish the value of the subject property. You have also researched the abstract title and property tax information to determine outstanding debt. The next step is to compare the figures you've come up with to determine if there is significant equity, or if the property is upside-down, but title is clear. If a search of the abstract of title shows “clouds” or issues that could tie up the property and make it difficult to resell, you may want to pass on that deal. The time and money if could cost to hold onto the property while you are attempting to clear these issues, would not only eliminate your potential profit, it could cost valuable time that could be used to pursue much more profitable deals.

The other factor to consider is how much work will this property need to bring it up to its optimum fair market value? Or, will it sell in its “as-is” condition in the current market? One pitfall the novice investor often encounters is over-improving the fixer-upper and throwing away the profit margin. Installing high-end flooring, fixtures and appliances in a neighborhood of average tract homes may not be the best use of your investment dollars. It is much harder to sell the nicest, largest home in the neighborhood than it is the smallest, oldest home in a nice neighborhood.

Also, check the MLS’s record of recent sales and listings in the neighborhood. What was the average number of days on market for “sold” properties? How many active listings are currently on the market? How many listings expired or sat on the market for months without ever selling? If properties in the neighborhood have sold quickly, this could be an excellent prospect. If there is only one recent sale reported with several currently active and/or expired listings, this might not be the best deal to purchase.

Important Offer Clauses to Include

Your offer contract should always have a contingency clause in it to give you an out and allow you to get your deposit back if you need to pull out of the deal. One or more of these clauses should be sufficient.

- Subject-To Third Party Approval of Buyer’s Partner Clause: A partner (business partner, spouse, private money lender, friend, pastor) needs to approve the purchase.
- Refundable Clause: Put in an exploratory or investigative period of 10-30 days to perform inspections and appraisals to determine if you would like to move forward. In this case, if you don’t like something (cracked foundation, water damage, mold, termites, etc.) then you can back out and get a full refund on your earnest money.

WRITING THE OFFER

Find Out Your Maximum Allowable Offer (MAO)

- First, take the after repaired value (ARV), which you determine from your comps
- Then you multiply the ARV by 70% (if you're using your own money to buy), or 65% (if you're using private money)
- Then you subtract your repairs
- Then you are left with MAO

An Example:

If you find a home that's worth $100,000 dollars fixed up, and you're going to use a credit line, you take $100,000 and multiply it by .7 which equals $70,000 dollars. (The 70% represents 20% profit and %10 for closing and holding costs.)

$100,000 ARV X .07 = $70,000

Let's assume the house needs $20,000 in work.

$70,000 - $20,000 = $50,000.

Your MAO is $50,000. The most you could ever pay for the house is $50,000.

Make the 3 Tier Offer

In an offer to purchase real estate, you include not only the price you are willing to pay, but other details of the purchase as well. This includes how you intend to finance the home, your down payment, who pays what closing costs, what inspections are performed, timetables, whether personal property is included in the purchase, terms of cancellation, any repairs you want performed, which professional services will be used, when you get physical possession of the property, and how to settle disputes should they occur.

Before you actually write the offer you need work on anchoring the selling price where you need it to be. Subconsciously anchor the price with the seller by talking about your research in the neighborhood and what houses are worth. Ask them what the assessed value is. This is almost always lower. Finally ask "If I pay you all cash and I pay you quickly what the least you can accept?" Follow up with "Is that the best you can do?"

There are other questions to ask as well prior to writing your offer. Ask if it is listed. (You should know the answer to this before you ask this.) Always ask for a referral. Do you have any other properties to sell?

WRITING THE OFFER

Ask the seller what their needs are. Do you need a large amount of cash or would you benefit more from monthly payments. As a landlord they are used to receiving monthly checks and may prefer this if they know that it is an option.

Remind them that if they take a large lump sum they will pay a large capital gains tax on the deal but that you could structure the deal that includes some owner financing that would provide some money down with monthly payments. They will still pay capital gains but they will reduce their tax exposure. Let them know that you will include some options in your offer.

As you construct your offer include the following 3 parts to the offer:

1. Low-Ball Cash Offer
2. A Small Down Payment with a Seller Carried Second
3. 100% Seller Financing

Low-Ball Cash Offer

This offer will be all cash. It will be the lowest of the 3 offers. If done correctly, this amount will offend the seller. That is ok. Remember there are two other offers to come. This offer is admittedly a low-ball offer that sets the subsequent two offers up as being better ones and more worthy of consideration.

A Small Down Payment w/ a Seller Carry

This offer mixes some cash with the rest being a seller carry. Because you will include terms that are advantages to you are able to offer more than cash alone. This offer should be constructed to appeal to the seller who expressed a need for some cash up front but does not need all the cash at once.

All Seller Financing

This option requires the least out of pocket from the investor. This, coupled with advantages terms will allow you to make the highest offer through this option. This is the ultimate win – win option. The investor controls a new property with no money out of pocket, the seller gets his/her house sold and is able to maintain a monthly income.

Below you will find an Addendum from an actual offer. It contains the 3 tier portions of the offer.

WRITING THE OFFER

Sample 3 tier Offer

Addendum to Contract #1

Buyer to purchase property located at 321 South Bigger Road, Spokane WA 99216 under one of the following three options:

Option #1: Purchase price to be $75,000

Buyer to pay all cash and close within 14 days of acceptance at any time before the expiration of the contract December 31, 2015.

Option #2: Purchase price to be $95,000.

Buyer to pay $10,000 Down, Seller to Carry 1st mortgage in the amount of $85,000, at 4% interest amortized for 30 years, with a 15 year balloon payment. Seller to receive monthly payment in the amount $405.80/month for 15 years.

Monthly payment to be $405.80 at 180 months =$73,044 + Balloon payment in 15 years of $$54,851.38 = $127,895.38 which equates to $8,526.35 per year, each year, for the next 15 years.

Option #3: Purchase price to be $105,000

Buyer to pay enough down to cover closing costs, not to exceed $3,000. Seller to Carry 1st Mortgage in the amount of $102,000, at 6% interest for 30 years with a 5 year balloon of $94,915.44. Monthly payment to be $611.54 per month. 60 payments of $611.54 =$36,692.40 + Balloon of $94,915.44 = $131,607.84 which equates to $26,321.56 per year, each year, for the next 5 years.

____________________________ ______________
Seller(s) Printed name Date

____
Seller(s) Signature

____________________________ ______________
Buyer Printed name Date

____
Buyer Signature