

Disclaimer and Copyright

Project Management: Plan, Execute, Check and Close the Deal

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is published with the understanding that the publisher and author are not engaged in rendering legal accounting or other professional services. If legal advice or other professional advice, including financial, is required, the services of a competent professional should be sought.

All rights reserved.

© Copyright 2017 by The Lee Arnold System of Real Estate Investing

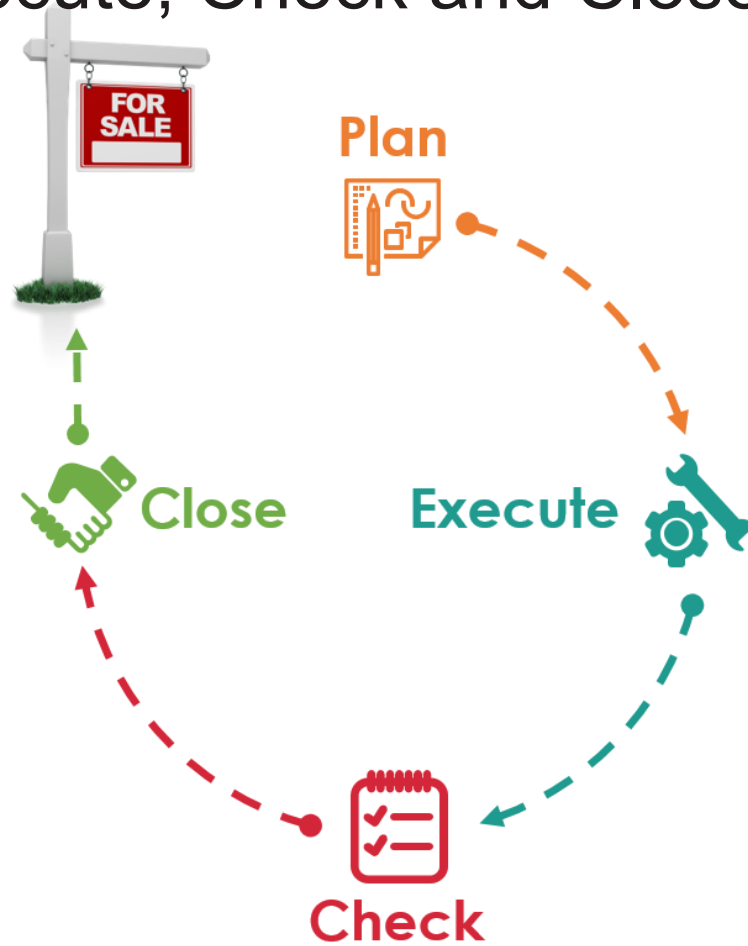
To order more booklets, please call 800-341-9918

All rights reserved. No portion of this book may be reproduced in any manner, mechanical or electronic, without written permission from the publisher, except for brief portions, which may be quoted in articles or reviews.

Printed and bound in the United States.

Project Management

Plan, Execute, Check and Close the Deal



Today, we're going to be talking about project management. Often people don't think that project management is an exciting or sexy subject, however, I believe that there is nothing sexier than getting a project completed on time, on budget, and on the market when you originally planned so that you can experience bigger profits faster. I have seen too many people borrow money from Cogo Capital and then have their projects go out of whack and see their expenses go through the roof. I continue to hear stories that your projects have gone beyond the budget, that your contractors have skipped town with your money, or



What is the CEO Fireside

The goal of these monthly trainings is to instruct, inform, encourage, and hopefully entertain at some level. To sign up, go to: www.learnoldsystem.com/

Helping you achieve your financial goals

that your partners are not doing the project according to the original specifications. This is mainly happening because you didn't have a well-thought out plan with rock-solid contracts in place. You didn't hold everyone accountable to hit the deadlines that were previously set and agreed upon. And the list goes on and on when it comes to project management epic fails. Today we're going to cover how to avoid all of these project traps because how well or not well your project goes affects us too.

As your lender, we don't want to foreclose on you or have you pay extension fees. We want you to get in and out of the project as quickly as possible so you can get it sold, get your paycheck, and go back and do it again. This is all about frequency of pay and I want you getting paid a lot more frequently. I'm sure you want that as well. So, today we're going to be covering project management. We will discuss planning, executing, checking everyone's work and then of course closing the deal.

First of all, what is a project? A project is a temporary endeavor undertaken to create a unique product, service or result. For this presentation, we're going to be speaking in terms of a project as a house or a piece of property you have acquired specifically to buy, fix, and sell. It could be a duplex, triplex, 4-plex, or commercial property or development, whatever it is, this is a project where we are specifically looking to buy it, fix it, and sell it to generate an immediate profit. A project is unique, in that it is not a routine operation but a specific set of operations designed to accomplish a singular goal. This is really important because we're giving you a system here today. Every house that you buy is its own stand-alone project. It has its own scope of work and its own unique nuances that you will have to deal with. Even so, there is a set process that the project must move through and we have defined and created a very smooth and effective process to make sure that each of our houses are going into production and coming out of production in as little as 40 days. That's how long Noah was in the Ark and I figure that's how long you can be in one of these rehab projects! Now, just for clarification, that does not mean that you're going to buy it, fix it, have it sold and get a paycheck in 40 days.

There is two elements to every project. There is what we call project management, which is the oversight of the entire project from acquisition to sale and then there is what we call construction management, which is the point in time in which we allow laborers to begin work on the project to the point that our laborers exit the project. That is just one small window in the total



It's a temporary endeavor undertaken to create a unique product, service or result.



The project is **unique** in that it is not a routine operation, but a specific set of operations designed to accomplish a singular goal.



A project team often includes people who don't usually work together – sometimes from different organizations and across multiple backgrounds.

Helping you achieve your financial goals

project scope. The 40 days that I speak of is from the time that you allow laborers into the property to the time that those laborers turn over a finished project. As you will see today, there are usually two to three weeks of planning prior to allowing laborers into the project.

If I bought something at auction last Friday, I would spend Friday insuring it and then on Monday, I would have the water, power, sewer, and electrical turned on. Tuesday, I would have my project manager/contractor out there to walk through the project and create a scope of work. From the scope of work, we would pull permits. By Monday of the next week, we would have laborers and crews in there to start the demo. That's only a period of about 10 days from the time we acquire it to the time that we actually have people in there ripping out walls.

THE 40 DAY RULE

**From the time that
demo begins to the
time that we need to
have the keys back
with a finished**

From the time that demo begins to the time that we need to have the keys back with a finished product is 40 days. At this point our sales representative, either me or my buyer's agent Laurie will go through the property and develop a tick sheet of all of the little knickknack items that still need to be completed. Once those are completed, our cleaning people will go in and then my executive assistant will stage the property. We'll then have professional photos and a tour video created and we'll go live on the MLS. All of our listings go live either Thursday afternoon or Friday morning.

If you still have projects that are taking you five, six, seven months, you need to attend one of our Rehab Certification classes. Just call 800-341-9918 and talk to a business development consultant to get signed up.

Now, you may be struggling with the dates and thinking, "Wait a minute Lee, if I put it under contract, I have 30 days to close and I need to get a loan application through Cogo and then get an appraisal." Remember, all of that stuff does not count in that 40 day window of time that I'm talking about. That all takes place before the construction or project management even begins.

A project team often includes people who don't usually work together, sometimes from different organizations and across multiple backgrounds. That's why it is your responsibility to manage and oversee the entire project from start to finish. Plan, execute, check, close and get it up for sale. Project management is defined as the application of knowledge, skills, tools and techniques with the goal to achieve the unique project requirements.

If I were to just randomly show up at one of your projects and start talking to the guy that's hanging the Sheetrock and ask, "When does this project have to be complete?" Will that Sheetrocker know when the project needs to be completed? If not, you need to start communicating this entire process to every single person on the team, so that every person who's going to touch that house, knows when their portion of the work needs to be done. This is why we put together a statement of work and post it in the property. Every trade person, every supplier, every sub that comes through there

Helping you achieve your financial goals

can look on the wall and see the dates and know the period of time that we've allotted for them to be in that project. They've already agreed to it in their contract, but the statement of work on the wall serves as a reminder to that agreement.

Common Mistakes:

Project management success revolves around you being the chief. You need to lead everyone else to success in their defined deliverable. Even so, here are some common mistakes that can flush away the profits.

Number one, taking too much time. Somebody asked me how many houses I plan to do this year. We'll probably do anywhere from 75 to 100 completed gutted rehabs, which will average about \$25,000 profit per house. I anticipate we will net, net, net just on the construction/ flipping side of our business, about a million and a half dollars this year. If that doesn't sound like a lot, understand that I devote about four hours a week to this side of the business. We have four other businesses that we're running. If I can do that four hours a week, you should be able to do that same amount full time.

To accomplish this, you have to move through your projects more quickly. The thing I tell my project management team every Tuesday is that in every property, every day, someone is doing something. The most costly overrun that you have as it relates to a project is time, which is why you have to move quickly. Make sure that someone is in that house everyday by scheduling your trades, back to back. In many cases, I want them climbing over each other. So while I have guys that are trashing the house out, I also have someone else ripping out walls and an electrician in the basement fixing the panel. Pulling wires, rehabbing cabinets, and/or framing—we have a lot of things happening in all of our houses at any given time so that my pipeline is always full. In fact, presently we have about 14 active projects in various stages of construction that we are managing and overseeing. So as you can see, I can't afford to take too much time because I have another project waiting in the wings.

Number two, not sticking to your budget. Or sadly, for many of you, not having a budget at all. Many people have come to me and said, "You know Lee. I would do more real estate investing if I just had cash." I will tell you that cash on hand, for a lot of people new to this business, is the kiss of death. When you have cash there is nobody holding you accountable to how you spend and budget it.

That's why I encourage private money loans through Cogo Capital. When you get loans through Cogo Capital, we require that you to do project management right. We have you fill out a statement of work and then we have someone



Helping you achieve your financial goals

inspect that the work has been completed before funds are released to you in previous set up draws. I'll tell you, of the stories that I have heard recently where people have been duped or lost the most money, it is because they were doing renovation repair with their own cash. They are arbitrarily cutting checks without checking anyone's work and it's costing them a fortune.

Number three, doing too much on the property. On Friday, I usually do all of my property inspections because as you know, if I'm not out on the road teaching at some event, I will be at the Spokane County foreclosure auction. Beginning at 5:30 or 6:00 a.m., I usually drive eight to 15 properties that are going to sale that day. Then I'll go to the auction and buy anything and everything that I can, after I have acquired them, I have the office insure and secure the property and get the utilities turned on. While they're doing that, I drive out to all our other properties that are in various stages of rehab. This last Friday I visited one that is very close to completion and met with my construction manager. During our conversation I said, "It's looking good but I'm not a big fan of this color. What is this color?"

He said, "Well, it's the gray that we always use and it won't be a problem because I'm going to custom build an entertainment center right here."

I said, "No, you are not. Leave it a flat wall. Wire it for a flat screen TV but do not punch into that wall."

My project manager, who has been with me for four- five months is learning as he goes, just like you, and he's making some rookie mistakes of doing too much, without considering the ROI. You can't do more than is necessary for the property. Simply put, it needs to be clean, bright, and the workmanship/craftsmanship needs to look professional, but as far as the amenities are concerned, you don't need any of them. The staging will take care of that.

Number four, not preparing for the challenges. Challenges are when your painter calls and says, "Hey, I apologize. I meant to be there today but I can't be there until next week." If you wait until next week, that means you have seven days where that property is going to sit vacant and nothing is going to be done on it. You can't get your flooring people in, or your doors and your trim work done because you need the paint done first. To avoid this, you need to have 1-3 painters at your disposal and that goes for all of your subcontractors. Always have a back-up plan. Also, understand that we don't always go with the cheapest bid. We typically go with the fastest completion because time is money.

Let me put this in perspective for you. Let's say that you have a property with a \$150,000 loan. Your loan is 14%, which is costing you \$21,000 a year or \$57 a day. That's just the cost of capital. That doesn't include taxes, insurance, or utilities, so let's just round it up to costing you \$100 a day. Now, if that house sits vacant for seven days because the painter can't get in there for another week, that challenge just cost you \$700. Going with a cheaper painter who can't be there for a week is still more expensive than the painter who cost more, but can get in faster.

Number five, overpricing the property for sale. If you have been out here for Lee's Inner Cir-

Helping you achieve your financial goals

cle, and walked through one of our finished properties, you know that we do high end, high quality work. Because of this, we get top dollar for our properties. Most of our sales in the last two years, will be the highest priced per square foot comparables in that entire market. We don't overprice the property to the comparable comps. We price according to what we know we can get. Because of this, we've created a kind of following so that when any of our listings go live, we have agents waiting to pounce because they know it's going to be top quality work.

This is the kind of reputational capital I want you to be looking to build and create in your own market. How do you do it? You do what you say you're going to do when you say you're going to do it. You don't cut corners, you pull required permits for all of the work, and you do a great job. With the access of funds through Cogo Capital, the expertise that you get through the Lee Arnold System Real Estate Investing trainings, and through our Rehab Certification Training, you can do exactly that.

There is so much opportunity here to really carve out and create a nice niche for yourself in your market area. I don't care where you live in the country, you can begin to create this reputational capital by buying good properties, doing quality work, and delivering great inventory to the marketplace. When you do that, you can command top dollar.

We just finished a 1,700 square foot rambler that I was initially shooting to get \$179,900 for. We picked it up for \$92,000 and put about \$40,000 into the rehab. We took it from a 3-1 to a 4-2, and put a beautiful new kitchen in it with bar-top counters, stainless steel appliances, the whole nine yards. When I saw the finished product I said to my assistant, "You know what, this is a \$200,000 house and I believe we can get it." We put it on the market and within 48 hours we had an offer for \$205,000! You can ask what the property is worth and demands. Do quality work, get a quality profit!

The Plan



Antoine de Saint-Exupéry once said, "A goal without a plan is just a wish."

Steps 1-3: We need to walk through the property and create a Scope of Work and Budget. What's the difference between a scope of work and a budget? A scope of work is my wishlist of everything that I want to do to the property. A budget is what it's going to cost me to do everything that I want to do with the property. Scope of work might be tear out living room wall to open the kitchen to the living room, put in granite countertops, new easy glide kitchen cabinets and stainless steel appliances. Make the backroom into a bed-

Helping you achieve your financial goals

room with six foot swinging French doors. Construct closets in back bedroom. Construct laundry facility. Turn two of back bedrooms into master bath with a Jack and Jill door so it can serve as guest, and then move furnace from main floor into crawl space in basement.

A budget is where the rubber meets the road. The conversation that I usually have with my project manager is I say, "Here is what I want." Then he says, "Okay, Lee, that's going to cost _____." My team then calls subs, contractors, and tradesman for the bids. The bids on the house that I just talked about on Bismark came back at \$65,000. My budget was \$40,000 so we eliminated certain items, "Okay, we're going to eliminate this and we're not going to do that. I also told my project manager to get better bids on certain items.

Typically, people go to their contractor with a plan only to have the contractor dictate the scope of work. Remember, your contractor gets paid the more that you spend because contractors get 20% on the cost of a project. When your contractor is going through the project and saying, "You should do this, this, and that" and your \$20,000 project balloons into a \$60,000 budget, your contractor just got a \$20,000 increase. A \$60,000 job to a contractor is a \$12,000 payday. You cannot allow your contractor to mandate what is going to be done, how it's going to be done, or what materials should be used to get it done. You cannot continued to be a wallflower and sit back behind the scenes. Success in this business requires you to be controlling, demanding, and authoritative.

If you don't control the project somebody else will and before you know it, this thing is going to balloon out of control. But here's the good news and what I love most about this business. Everything that goes on in that property is 100% my responsibility. If something goes awry, it's my fault. The worst thing you can say is that the contractor screwed you over. No, you allowed him or her to take advantage of you because you were not managing the project correctly. You weren't overseeing the subs and suppliers, you were cutting checks without discerning or verifying that the work had been completed. You are 100% responsible whether that project succeeds or fails. You don't have the luxury of throwing other people under the bus.

When we walk through the property, we're looking for not only what the property is and what the property needs but we're also looking for what the property could be. You need to get to that place where you just walk into a house and say, "This is what the house needs to be." You may be wondering, "How am I ever going to get to that place when I've never done this before?" If you have ever attended an Amway Convention, you have already heard this but it's important. "You are going to fake it until you make it." Don't walk into a property and shake your contractor's hand and say, "Hey, I'm so glad that you came, I'm so excited. This is my first rehab ever and I'm just so thrilled." All the contractor needs to know is that you are the big cheese on campus and that you're the one with the checkbook. You're writing the checks and it's going to be your way or the highway. They're going to do it to your specifications and your timelines and if they don't, you're going to kick into the curb and replace them with somebody else. Even if this is your first deal.

Ronald Reagan said, "Trust but verify." When you guys begin your projects, you need to come in with an air of confidence even if you have to fake it. One of the easiest ways to get to a place where you feel more confident and powerful is to dress accordingly. Men, show up in a suit. Ladies, show

Helping you achieve your financial goals

up in a blazer, slacks, and high heels. March into that house, full steam ahead, looking like the person in charge. Costuming is very important. I don't show up in sneakers, blue jeans, a flannel shirt, and a ball cap. I show up in a suit. Think of it this way, is buying and putting on a suit worth saving yourself 10 grand?

The Scope of Work and Budget:

The house we'll use in today's example is a house that we picked up for \$72,000 at a foreclosure auction, which is the perfect place to get bargain deals. I want to get you to a place where you can afford to buy foreclosures at auction. This brings me to a couple of goals that we, as a company, have for you. First, we want to get you to a place where you have a quarter of a million dollars in liquid cash and second get you to a point where you are an accredited investor with a million dollars in investible assets, excluding home equity. These are the kind of the plateaus that we shoot for with each and every one of our clients. But first, you need to get \$250,000 in liquid cash so you can get down to auction and bid. You'll use your own cash to buy the properties and then you'll use Cogo cash to carry your inventory. Unlike buying homes from sellers, where they contractually have to leave swept clean, when you buy these houses at auction, you buy them as is. It's like a grab bag at the candy store. Once you get in, you have the trash-out crew go through it and get everything out of the property. Once they're done, you can walk through and put together a scope of work (SOW).

The SOW should include:

- Information about the property
- Objectives of the agreement
- Deliverables each sub will do and when they will do it by
- The products that they will use
- The quality of the craftsmanship expected
- The administration—who is doing what
- What permits are needed and who is pulling them

You'll be responsible for all of the oversight and of course, setting, establishing, and sticking to a timeline. Now, on the left hand side of this example, you have what we call a scope of work and on the right hand side, you have our ongoing profit and loss statements for this particular project.

Now, on the next page, on the left, you can see what we were planning to spend. So going down the list you can see we planned \$1,500 on appliances, cabinets, hardware, countertops; \$1,700 on carpets; \$1,200 on concrete, patio steps and drive; and \$500 on the front railing and fixing the back porch. There were no decks and the gutters and downspouts were in decent shape. We're not going to be doing any drywall work and we don't have to do anything on five, six and seven. On line eight, the panel had recently been upgraded so we did not have to upgrade any of the electrical other than the lighting. We put a lighting package together, which cost \$760. We painted the exterior, which was a thousand bucks and fixed the exterior and garage door which cost us another thousand. The exterior painting project cost \$500; the finished hardware was \$300; and footings and foundation was \$340. This project was slated to take five weeks, and we average \$3,000 a week for labor for our

Helping you achieve your financial goals

SCOPE OF WORK

Borrower's Name		Property Address 1711 W Chelan					Cost Breakdown Repair Costs - Budget vs. Actual	
Arnold Professional Holding								
Item	Actual Cost	Original Estimate	Notes	Change Orders	Total Budget with Change Orders	Amount Remaining		
1 Appliances		1,500.00						
2 Cabinets/Hardware/Countertops		1,700.00	1400 for Granite = 300 for hardware					
3 Carpets		1,200.00	Carpet only in bedrooms					
4 Concrete steps, Patio, Drive		500.00	front railing and fixing back porch					
5 Decks		-						
6 Downspouts & Gutters		-						
7 Drywall/Tape/Texture/Sheetrock		-						
8 Electrical		760.00	upgrade lighting					
9 Exterior & Garage Doors		1,000.00						
10 Exterior Painting		500.00						
11 Finish Hardware		300.00						
12 Finish Labor		-						
13 Fireplace		340.00						
14 Footings & Foundation		-						
15 Labor \$3000/wk X 5 wks		9,000.00						
16 Framing Material/Trusses		-						
17 Hauling, Dumping, Recycle		475.00						
18 Hardwood Floors		-	refinishing share the cost with the carpet					
19 Heating/Air Conditioning (HVAC)		150.00	Cost for Service call					
20 Insulation		-						
21 Interior Doors/Trim (and ext)		750.00	exterior door 350					
22 Interior Painting		700.00						
23 Kitchen Sink/Disposal/Other Kitchen		450.00						
24 Landscaping (Sod, Tree Removal, plants, rock)		2,935.00	includes fence					
25 Lino/Tile/Vinyl		300.00	for Kitchen, bath, front entry and fire place					
26 Masonry, Veneer & Chim.		-						
27 Plans/Arch/Survey/Engr./Permits/asbestos		-						
28 Plumbing		670.00	cost includes plumbing finishes					
29 Plumbing Finish (sinks, toilets, tubs)		250.00						
30 Rental (Equipment)		-						
31 Roofing		-						
32 Sanitation (dumpsters)		-						
33 Sewer/Spetic		-						
34 Siding		-						
35 Sky Lights		-						
36 Sprinkler System		-						
37 Temp Power/Excavation		-						
38 Wallpaper/Paneling		-						
39 Water Hook-up/Water Heater		-						
40 Windows/sliders		300.00	approx for broken window					
41 Other --Smoke and carbon detectors		-						
42 Other Supplies/Items (light fixtures)		-						
43 Cleaning and Pictures		475.00						
43 Subtotal		-	24,255.00		-	-	-	
44 Contingency/Markup	20%	-	4,851.00		-	-	-	
45 Total Repairs		-	29,106.00		-	-	-	
46 Sales Tax	8.7%		2,532.22					
QB Sheet		#REF!	Overbudget					
Check		#REF!	Underbudget					

Helping you achieve your financial goals

crew. That's going to run us \$15,000. Hardwood floors which had to be refinished ran us \$475. Heating and air conditioning is in good service or in good working order so we just had it serviced. We also got a certificate that the furnace was serviced, which we will use when we sell the property to the end-user buyer. Plumbing finishes includes sinks, toilets and tubs was not too expensive since we only had one bathroom. The sub-total was \$24,200 with a contingency markup of 20%. The reason that's there is that I am licensed bonded contractor. In the State of Washington, you have to be if you're flipping houses in less than one year. Because of this, I'm allowed to charge all of my rehabs a 20% markup and a full listing commission when I list the property because I'm also the licensed agent selling the house. By doing both of these things, I am reducing my net profits and remember that when you sell houses, you don't do 1031 exchanges because you have the houses for less than one year, meaning you're going to pay capital gains. By taking fee income out of the project through these other verticals, I avoid paying a greater capital gains cost, make sense? The advantage here of scope of work, is that we can anticipate what it's going to cost. You see where it says original estimate here and then on the left hand side, it says, actual cost. The beauty of this scope of work sheet is that the original estimate is what I'm going to use to negotiate with people.

Look at line number nine: exterior and garage doors. I called up my door guy who went to the property and came back with his estimation and said, "Hey Lee. You're going to need a garage door and exterior door on the garage and then two more exteriors which are going to need new free hangs. I can do it all for about \$1,400." Because I have a SOW, I can say, "That's not going to work because I've only budgeted in a thousand dollars for exterior doors. Can you get me to a thousand dollars?" He couldn't, so I told him I needed to shop around. It is very common to get an email within two or three days that says something like this, "Okay, how about 1,200?"

I get nine bids from door people and the closest to my SOW is \$1,100. We're close but we're not there. We can take \$100 out of the contingency fund and put it in the door line item so we can still get the work completed. On the right hand side, we have what our actual costs. We purchased the property for \$74,000. I borrowed money from Cogo Capital, just like you guys do. I use my own cash to buy at auction and then I refinance with Cogo so I do have interest costs when I buy a property. We got it done in three weeks, not five, so labor only cost me nine grand. See the agent cost of \$13,490? Keep in mind that I get a 3% commission that's coming to me when we sale the property. The sales price was \$134,900 so we priced it correctly. I ended up getting an offer on that house for \$142,000. Our profit and loss on that was not \$14,000. It ended up being about \$17,000, plus I got another \$4,500 in real estate commissions and another \$4,000 in contractor fees, meaning I made about \$25,000 on this house and we were in and out of this one in less than 90 days. Not too shabby, right?

The Execution of the Plan

Pelé, a Brazilian soccer player says that, "Success is no accident. It's hard work, perseverance, learning, studying, sacrifice and most of all, love of what you are doing or learning to do."

Now, we begin to execute on these deliverables which means we need to start getting our contractors, suppliers and subs ready by giving them the contracts and showing them the statement of work.

Helping you achieve your financial goals

We then get and decide on bids, which allows us to create a draw schedule. Once the draw schedule is completed and we get contractors to sign the agreements, then our build out begins and you have 40 days for everything to be done.

If you want to take an extra week before that day begins, take it, but make sure you are scheduling everything down to a fine art during that week so come Monday, you can have the trash-out people come in and haul out all the garbage left over by the previous tenants. On Tuesday, you'll have the demo people come in.

Wednesday and Thursday, you'll have framers, plumbers, and electricians come in. On Friday, you'll have your insulation people come in. And then on Saturday, you'll have people coming in to hang up the dry wall. That way, the next Monday, they can come in to do the mud and tape, which is a multi-step process. It needs to dry and set for a day and then they can come back and sand and re-mud it again, and then, if needed, repeat the process. Once that is done to specification, you have your texture people come through, then your rough paint crew. You then drop your doors, your trim, your base board, and then the final paint takes place.

After that, you have the kitchen cabinets, tubs, sinks, and tile go in. Once that is complete, we bring in our flooring—carpets, wood, linoleum, and/or tile. We then set in our appliances. We do a final cleaning, rough out, final walk through and tick sheet completion, and then we're done.

As you can see, when I say build out begins, in order to meet your 40 day deadline, it really needs to begin in earnest!

Who are the Contractors?



Our main team handles all of the things that happen between the subs, from the clean out to prepping the area for the experts to come in. We then sub out a good chunk of the rest like, basic and advanced carpentry, handrails, decks, sub-floors, doors, framing repairs, painting, sheetrock repair and replacement, electrical, plumbing, HVAC, installation of carpet and vinyl, installation of flooring trim, exterior repair, siding replacement, soffits, fascia, trim, pressure washing and gutter repair or replacement.

My guys are running between 10 to 15 projects at a time, working in and around our subs. You may be wondering, "What does that mean for me, when I'm just going to do one



Helping you achieve your financial goals

house at a time?" Regardless of how many properties you have, you need to be managing who's doing what, where. For instance, if you have your sheetrockers come in to finish hanging, taping, and mudding the sheetrock, you need to make sure that the next step is ready to go—do you have your doors ordered? They should have been ordered two weeks ago.

Just a quick expert hint: I'm not a big fan of going down to Home Depot and buying standard slab doors off the rack because they often do not fit. Even if they do fit, there might be large gaps between the doors and the jams and we have to come in with larger trim and baseboard to cover the big gaps. Yes, you may pay less for each door, however, the amount of time and cost you'll pay in extra labor trying to make them work will be more down the line. We have all of our doors measured, custom built, and delivered to the site.

We order our lumber in thousand dollar quantities from Lowe's and Home Depot so that we can go online and order everything we need. All we have to do is show up with a truck and they load it up. Again, there are things you can be doing from an efficiency standpoint that will dramatically increase the speed at which these projects can be completed. These are just a handful of the things that we cover at our Rehab Certification Trainings and you can call 800-341-9918 to see when the next one is. If your head is spinning right now because this is a lot to take in, I have some good news. We've actually already built this for you in our Rehab Certification Training. It's all there. When you can get really good at this is, at a point of just mass efficiency, you're going to see your income skyrocket.

We also have multiple HVAC contractors, multiple licensed plumbers, and multiple licensed electricians that we use. Admittedly, in all three of these trades, we have our favorites and with volume, you can get greatly reduced pricing. You may be thinking, "Lee, I'm new to this. I've never flipped a house. How am I going to get volume pricing when I'm not doing volume?" Are you really only going to do one house or are you going to do multiple homes? Every time you meet a new sub or a new supplier, you need to say, "Hi, my name is so and so and I'm a professional investor. This is just one of the houses we're working on. We anticipate flipping anywhere from five to 20 houses this year. A lot of the volume is going to be dependent upon how quickly you can get in and get out and how much you can save us on projects. Please understand that when you bid and bid based on volume. I can bring you a constant flow of business where you can make sure that you and your crews have work all day every day." Remember, fake it until you make it or speak your future into existence. You should never be talking about the one house you're working on. It should always be *one of the houses* currently in production. While you have one house being worked on, you should be writing offers on other properties. You should be looking to create volume. At the Rehab Certification Training, we build this for you and we create the process and the flow.

Once we put the statement of work together and we've outlined the budget, we now put together a draw schedule. This makes your job really easy because, if you just look at the draw schedule, it will tell you what to do first. Just follow the stages.

Helping you achieve your financial goals

In this example, you can see that stage one contains the plans such as architecture, survey, engineering. It also pays for the temporary power and excavation Stage two covers the footings and foundations, the demo, concrete, sewer/septic if necessary, downspouts, gutters, exterior painting, roofing, framing materials, trusses, and electrical plumbing. You can see, where each stage occurs in the draw. Look at the stages, then look at the draw and you can see that the first draw is going to be \$25,000. Draw two, is going to be \$10,500. Draw three is going to be \$14,817. Draw four, is going to be \$12,450. Your remaining draw will be \$8,600 for a total renovation budget of \$71,997. Just follow the process. It's like paint by number and it's a lot easier than you think. At the Rehab Certification Training, we can teach you how to scale and grow your rehab business dramatically to where you're making seven figures without being heavily involved.

8			Estimate Cost	Draw 1	Draw 2	Draw 3	Draw 4	Draw 5	Amount Remaining
9	Stage 1	Plans/Arch/Survey/Engr.	1,300.00	1,300.00					-
10	Stage 1	Temp Power/Excavation	450.00	450.00					-
11	Stage 2	Footings & Foundation	10,920.00	10,920.00					-
12	Stage 2	Demo	1,300.00	1,300.00					-
13	Stage 2	Sewer/Spetic	3,300.00	3,300.00					-
14	Stage 3	Cncrte steps, Patio, Drive							-
15	Stage 3	Decks							-
16	Stage 3	Siding							-
17	Stage 4	Downspouts & Gutters	300.00				300.00		-
18	Stage 4	Exterior Painting	200.00				200.00		-
19	Stage 4	Roofing	200.00				200.00		-
20	Stage 4	Sky Lights							-
21	Stage 5	Fireplace							-
22	Stage 5	Framing Labor							-
23	Stage 5	Framing Material/Trusses	2,500.00	2,500.00					-
24	Stage 5	Masonry, Veneer & Chim.							-
25	Stage 5	Windows/sliders							-
26	Stage 6	Electical	4,500.00		4,500.00				-
27	Stage 7	Plumbing	2,000.00		2,000.00				-
28	Stage 7	Plumbing Finish (sinks, toilets, tubs)	1,000.00				1,000.00		-
29	Stage 7	Water Hook-up/Water Heater							-
30	Stage 8	Heating/Air Conditioning (HVAC)	1,000.00		1,000.00				-
31	Stage 9	Insulation	1,150.00			1,150.00			-
32	Stage 10	Drywall/Tape/Texture/Sheetrock	6,450.00			6,450.00			-
33	Stage 11	Exterior & Garage Doors							-
34	Stage 11	Interior Doors/Trim	1,075.00			1,075.00			-
35	Stage 12	Interior Painting	967.50			967.50			-
36	Stage 13	Electrical finish	1,650.00				1,650.00		-
37	Stage 14	Carpets	1,850.00				1,850.00		-
38	Stage 14	Hardwood Floors							-
39	Stage 14	Lino/Tile/Vinyl							-
40	Stage 15	Cabinets/Hardware/Countertops	3,400.00	1,700.00		1,700.00			-
41	Stage 15	Finish Hardware	1,950.00				1,950.00		-
42	Stage 15	Finish Labor							-
43	Stage 15	Kitchen Sink/Disposal/Other Kitchen							-
44	Stage 16	Appliances	2,300.00				2,300.00		-
45	Numerous	Hauling, Dumping, Recycle							-
46	Numerous	Landscaping (Sod, Tree Removal, plants, rock)	1,150.00	1,150.00					-
47	Numerous	Rental (Equipment)							-
48	Numerous	Sprinkler System							-
49	Numerous	Other Labor	20,610.00	3,000.00	3,000.00	3,000.00	3,000.00		8,610.00
50	Numerous	Other Supplies/Items	475.00			475.00			-
51		Total Repairs	71,997.50	25,620.00	10,500.00	14,817.50	12,450.00	-	8,610.00

Helping you achieve your financial goals

Check the Plan

John E. Jones an American lawyer said this, "What gets measured, gets done. What gets measured and fed back gets done well. What gets rewarded gets repeated."

We need to make sure we're getting ongoing updates. Meet weekly, or in some cases daily, with everybody that's involved in this project. If you don't have a contractor or a general to oversee it, then you are the general. You do not wait for your contractors or your subs to call you and say it's done, they need to know that you are managing this project effectively and that you are on it. You check that they are there when they say they are going to be there and that they accomplish what they say they are going to do. You can schedule your subs and your tradespeople around your schedule and make sure they are there when you are there to verify the work. You have to be in the driver's seat here. You need to know on Monday morning what's going to happen that week and you need to know on Friday afternoon, what actually occurred. You're going to take it all the way to completion.



The final walk through is the most important, especially if you're using a hired general contractor. The final walk through is where you authorize the final release of the final draw. In our example it's \$8,600. The bulk of the contractor's remaining paycheck is in that final \$8,600. It is the most important draw of this entire project because it's your last opportunity to get all the missed or shoddy work. If you don't catch it through your final walk through, it's not going to get done. The final walk through is where you're going to go through and nitpick every part of that project and make sure that it is indeed complete.

Now, here is what they'll do. They'll say things like, "Well, if you want me to do this final punch list, because there is more than I expected, it will cost more." There isn't. All the work was in the original agreement and they simply did not follow it. You say, "This final \$8,600 will only come when this work is completed." As long as you set up and manage the expectations of everyone involved in this project at the beginning, there will be no surprises at the end.

You have to be in total and complete control from beginning to end to make sure that you and everyone involved has a tremendous experience because ultimately what you're looking for is a winning team. That way you can simply focus on acquisition part. My job is to simply go out and find the next deal and the next deal and the next deal and these systems have been put in place so everyone knows what to do next each time I bring in a new deal. The same should be true for you. With Cogo Capital as your financial backing, you should be focused on finding the next deal. If you implement these policies, procedures, and processes for your entire team to follow, you can just focus on getting the next deal and financing over and over again.

Once we've done the final walk through, we're going to stage the property. Properties must be staged

Helping you achieve your financial goals

and we talk about this at great length at the Rehab Certification Training. My houses sell faster than anyone else's house in my entire market. That is not by luck or happenstance. It's simply because we know how to stage, photograph, and present better than anybody out there.

Communication is Key

As this process relates to you, you must understand that communication is key. When it comes to the all-important, albeit trying relationships between the investor and the contractor, the biggest culprits for things falling apart are a lack of or nonexistent communication. This is one of the reasons why I don't encourage people to invest across state lines or outside of a 25 miles radius of their home. Physical presence is really important. If you're coming around and the work is not done, you're going to know about it sooner than later. Also, if it's not in writing, it doesn't exist. A gentleman's agreement doesn't work. Everything has to be in writing. Otherwise, it becomes conveniently forgotten and no news is always bad news when you have a fix and flip project.

We avoid a contractor breakup, which is very common, by first scheduling weekly, standing calls. You meet every Tuesday at 11 a.m. come hell or high water. In the meeting you go through the schedule, the budget and make sure that everyone is on target. Secondly, you listen to their advice regarding the project. We can also give you some help. We can help you know what needs to happen and what it needs to cost. So, when I say listen to their advice, I mean to take it with a grain of salt, and check and verify. Normally it will cost you more money. Thirdly, you must be open and flexible to your budget and your statement of work changes. All changes to the budget and the statement of work must be done through a change order, which we give you at the Rehab Certification Training as well. Fourth, be a constant face at the job site. Pop in visits keep the contractor on the ball and on the job. Those of you that are doing projects across state lines, my advice is always get into your car or get on an airplane and get your rear out there. They need to see the person that's writing these checks on the site. They need to see you and meet you. It's a lot easier to screw somebody over that you've never met than it is to knowingly take advantage of someone after you've met with them. If you want to reduce your risk even greater, take them to lunch and pay for it. That simple act alone will reduce contractor fraud dramatically because usually no one will screw over someone that they know and have broken bread with.

Honesty is the best policy. You must set the expectations early and sell the contractor on the draw schedule. Don't agree to advance more than a normal deposit to start the work and don't deviate from this draw schedule once the work begins. Don't allow yourself to get into a situation where the contractor is calling you and demanding more and more money. More often than you, if you call us for more, we will tell you no. Remember, you're running this job, not the contractor. You are responsible and you need to run the show. Don't let them push you around. I



Helping you achieve your financial goals

don't care if it's your first deal. You're in charge.

On the final walk through, when all the contractors have finished their work, we create a final punch list of things they may have forgotten to do. This is not uncommon so don't walk through the house the first time and think, "You are the worst contractor on planet earth. This looks like garbage." Know that when a contractor calls you and says, "We're done. Come and pick up the keys," that you're going to find about 25 little things they missed. It's not because they are sloppy or lazy. They missed it because they've been in that house for the last four weeks, 10 hours a day. They don't see the details anymore. When I did the work, I missed these things too. Understand that it is your job to go in and create this punch list and get those things knocked out as quickly as possible and not to release the final draw to the contractor until every single item is completed. There is no room for negotiation on this.



BEFORE



AFTER

Once the punch list is completed, we need to stage the property. This is the same example house I showed you before. We painted the front and added shutters. We put all new sod down and have the sprinklers going, along with two decorative planters on both sides. We also put in new exterior lighting here. We've trimmed the bushes back and skim-coated the driveway. We didn't put down new cement, we simply skim coated what was there. It's really just cement that has more water in it, and it makes the old cement look nice and neat. We do the same thing to the stairs.

Helping you achieve your financial goals

In the back, you can see that we have moistened the cement. Why do we do that? It makes the cement look darker and it gives us a better contrast between the dark cement and the green grass. We've also put up a really nice fence. You can buy entire eight foot sections, with the tab and everything on it, for about \$65.00, then you just set your 4x4 post at eight foot sections and you have a beautiful fence. We enclosed the entire backyard. We also created a huge driveway to save money on sod. By creating a larger pad by the garage, we can now market that the property has RV parking, as well as a garage. We actually had more opportunities for amenities in our listing by cutting the yard and putting gravel down. Marketing that this property with RV parking is going to give us more money than having a big yard.



BEFORE



AFTER

On the inside of the home, you can get a real sense of the scope of our staging. You can see that we did not do any new sheetrock or windows, which were already double paned. We did a two tone pane. We put a base strip down and put in new carpets. We then just staged with pillows and little boxes and blankets so that the pictures and setting has some texture and warmth. We refinished the hardwood. We also put in a brand new construction-style plumbing fixtures for the washer and the dryer.



BEFORE



AFTER

Helping you achieve your financial goals



BEFORE



AFTER

In the bathroom, there was no tub so we put a tub. We also put in new tile and a new toilet, but kept the vanity that was there. We didn't replace the cabinets in the kitchen. We just refinished them, put on new hardware, put in new countertops, and added new stainless steel appliances. In the dining room, we put in a table and some plates and opened the backdoor to accent the space with the green of outside. It makes this dining room area feel a lot larger when in fact, it's really quite small. This is a tiny, 950 square foot house so light and outside space is important



BEFORE



AFTER

In the front room we accented the space with blues using pottery, pillows and pictures and then we added tables and lamps to lighten the place up. There is no lighting in this living room otherwise. If we had to re-sheetrock this house and put in new electrical, we would have put canned lighting into the ceiling to really brighten it up, but we did not have that luxury in the budget. Instead we added lamps, which stay on 24/7. It's the kiss of death from a sales standpoint for a potential buyer to walk

Helping you achieve your financial goals

in to a cold, dark house. The heat is always set at 65 in the summer and 75 degrees in the winter. You may be thinking, "That's expensive. You're spending a lot of money on heat when nobody is there." When you have a house being sold, you have no idea when a perspective buyer is going to walk through that property and it has to be warm or cool depending on the time of year. Believe me, having a house on the market for too long is way more expensive than cooling or heating bills. Also, it has to be light and bright. You will never see blinds on any of our listings. Agents close the blinds before they leave and darken the house before the next buyer comes in.

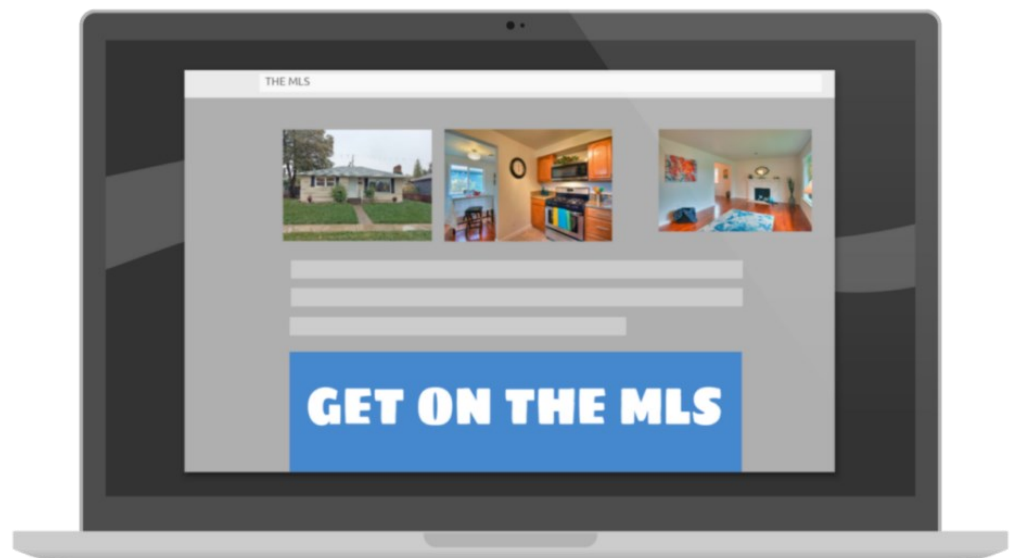
We painted the fireplace brick white and the inside of it black, and then laid new tile in front of it. We spruced it up with a mirror, which makes the space feel larger and some knick-knacks. This just gives you a small taste of what we do when we stage a property. We go more in depth at our Rehab Certification Training. Just call 800-341-9918 to learn when

Closing the Deal (All Plans Should Have an Exit Strategy)

Farshad Asi, an author once said this, "Closing the deal is not just selling. It is moving people from where they are to where they should be, helping them make the right choices and take actions toward their financial freedom, peace of mind, and legacy."

I want to put a house together that is going to be a good investment for the homeowner and that they enjoy and have peace of mind while they live there. I put together homes that give people pride of ownership. They can bring over their friends and family to show off their beautiful new home. This is not just a profit center for me. This is also a pride center for me and I take great pride in the products and quality of work that we put out into the marketplace.

Once we have it staged, we hire a professional photographer to come through and take high-quality pictures. If you don't know one, simply call the top real estate agents in your market and ask them who they're using to do their home photography. Then, how the property is listed on the MLS, the photos that are taken, the angle of the shots, the lighting of each shot is very important because 96% of the people who will buy your houses will look at them online, long before they will walk through them for a tour. The place to invest time and money and energy and efforts is in how the property looks online.



Helping you achieve your financial goals

Also, the copy, the words, the keywords for the searches, and the order of the photography is very important. There should be descriptive copy over each picture and a description of what they're seeing in each frame of the video. The copy should be creating an emotion which is very important for the sale. Once we've refined the listing on the MLS, we put a key box on the property, a sign in the yard, and a flyer box stocked with well-designed flyers. There is nothing more frustrating or annoying to me than pulling up to a house and seeing that they have a flyer box that is empty. I'm a ready, willing, able buyer and there are no marketing materials at my disposal!

This is something you need to be watching especially if you're not a licensed agent and representing your own listings for sale. You need to make sure that your agent is as anal about the sales process as you are or I am. Otherwise, you won't be able to build a business to the level that I've built mine, which is my desire for you. It's a great living and a rewarding existence. You get to help a lot of people by converting bad homes into beautiful properties and thereby changing neighborhoods one house at a time. There is so much about this business that I love and it would do my heart good to see you flipping five, 10, 15, 20 houses a year and making \$200,000 to \$500,000 or more a year in cash working for yourself. That's my goal for you and hopefully, it's your goal for yourself.

To make sure you control the whole process, including the sales side, I strongly recommend that you become a licensed agent. One of my favorite quotes is this. "Do not leave your success in the hands of others." Every time you outsource a job that you could be doing and every time you write a check to someone who's doing work you could be doing, you're leaving your success in the hands of others. I am a licensed, bonded contractor. Even though I don't do any of the work myself, everyone who works for me does it under my license, so that I can control that process flow. Also, no properties are bought or sold that don't go through me as the buyer's agent or the listing agent.

I'm closing on a house tomorrow that I bought off of the MLS. I'm getting 3% when I buy it, which means at \$150,000, I'm getting \$4,500 in commission on a house that I would buy anyway. If you're going to be buying five to 10 houses a year, where your average is \$300,000, that's \$300,000 in and out on five properties, which is \$1.5 million. That's \$45,000 in commission that you're going to pay someone else. That money should be going to you, in my opinion. That will allow you to accept the offer, fill out the paperwork, negotiate your own deal and then of course, maintain the property, as well as the relationship. To me, the commissions and control are paramount in real estate.

After we sell a house, we place a gift basket



Helping you achieve your financial goals

in the fridge of the new home for the homebuyer. It's a nice \$150 basket with wine, cheese, and meat. They don't know that it's there, we just leave it on the fridge with a nice little card from Cogo Capital saying, "Thanks for your business, we appreciate working with you. Please recommend us to anyone else looking for a house." It's how we upsell our brands. We also include a wine opener and a knife engraved with "The Lee Arnold Team." We then send a big beautiful, edible arrangement to the agent that sold the house. We always send it to their office, that way if it's sitting at the front desk. The receptionist receives it and calls the agent, "Hey, Suzanne. You just got a delivery from the Lee Arnold Team over at Keller Williams." Suzanne walks up to the front. She grabs this big bouquet, which has to be eaten before it spoils. She can't possibly eat it all, so she'll spread the "wealth" around her office and allow others to sample from it. This will invariably lead to questions from other agents, which gets me and our brand in their heads too!

Every part of this process is done to the nth degree with no detail left undone or left to chance. You may be wondering, "How do I get to that point if I'm only doing one house?" Well, I'll tell you this, I didn't start doing it to this degree until just a few years ago. When I first flipped houses, I did everything wrong. I didn't stage them, I purposely cut corners to save costs, and I didn't do quality work. It's taken me 21 years to get to this level and if you simply follow our systems, use our paperwork, our forms, our scope of work, and everything that we've already built for you, you can be here in less than 36 months. You'll shave off 18 years of hard work and lots of mistakes! We've made the roadmap so easy to follow and we give it all to you at our Rehab Certification Training.

I want you to notice when we un-stage the property. We do not take our staging out of a house until we close because the difference between a staged house and an un-staged house is literally night and day. We stage a house to create an emotional rush. People gush that it's warm, homey, and cute. They love everything—the knickknacks, the towels, and the mirrors hanging here and there. But if you un-stage it and they go over for an inspection, you've removed many of the aspects that made them fall in love with it in the first place. The warm and fuzzies are gone and they find that they don't love the house as much anymore. You can lose the deal and it's actually happened to me! I lost a buyer because we un-staged the property before we closed on it. I will never make that costly mistake again

We get most of our staging materials from Big Lots, Michaels, Nordstrom Rack, TJ Maxx, or Home Goods. It's all discounted stuff. We buy a lot of staging materials like art and books at estate sales or garage sales. In each house, we have usually two to four hundred dollars-worth of staging and we have enough staging for about eight homes. When we're not using it, it sits in a storage unit. When you come to the Rehab Certification Training, I'll show you exactly how we stage each home and the little tricks that make all the difference to a quicker sale. We also give you our three design and color pallets, which includes paint choices, color choices, the carpet choices that we use on each variation of each home. I've said it before, but it really is paint by number.

I know that there is a lot to remember but I'm willing to show you how I do this from start to finish at one of our upcoming Rehab Certification Trainings. If you think education is expensive, try ignorance. There are too many little and big things that go wrong when trying to flip a house. Having someone experienced to help you make the right decisions is invaluable and we can do that for you.

Helping you achieve your financial goals

To be involved in one of our upcoming events, just call 800-341-9918 and let us know where you're at, what you need for us to get you there, and some of your upcoming goals.

It really starts with flipping the first home. We teach you how to do that the proper way so you can profit and move on to the next home and the next home. **Your success is our success, so let's begin with that today!**

The Circle of Wealth

After years of teaching and mentoring around the nation, I found that education doesn't mean a lick, if the person being taught doesn't have the capital to put their knowledge into genuine action.

So, I took the challenge and created a place, Private Money Exchange, where real estate investors could go for unlimited funds for their non-owner occupied investments.

While the progression seemed natural, we were missing one, very large and essential piece of the pie. The marketplace was teeming with people who had the funds, who aspired to make higher returns on their invested dollar, but lacked the desire to get involved in real estate at the ground level.

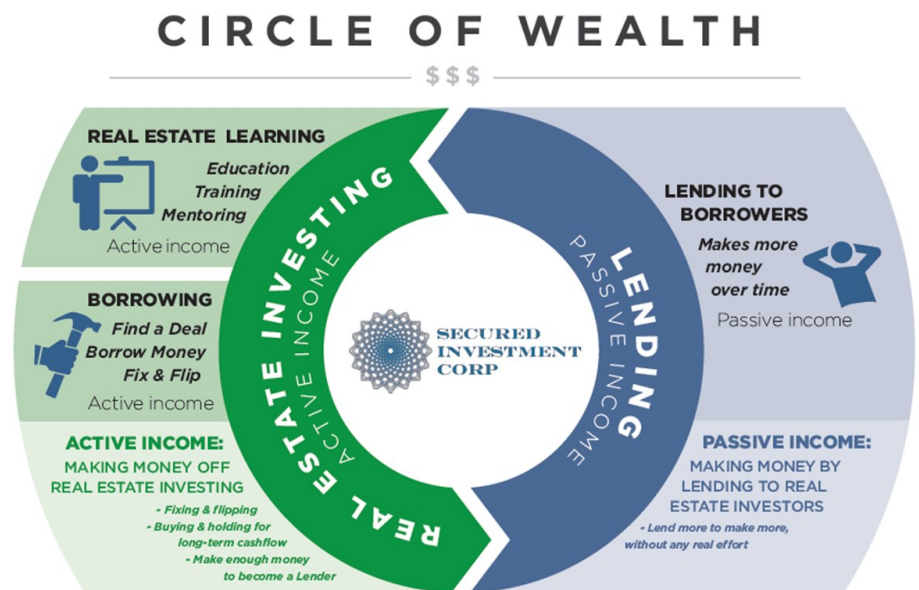
In light of this opportunity, we created Secured Investment Corp, which gave people a medium to lend on first trust deeds (real estate), and make higher returns than they were currently seeing in their stock market, bank CDs, or bond investments.

As we combined all these facets—training, funding, and the means to lend on real property—we began to notice a progressing trend of growth and success with the clients involved.

Through this model, what we call “The Circle of Wealth,” we also noticed that people who entered in at the training level and borrowed funds for their real estate investments, eventually became lenders in their own right. They then helped others obtain the capital needed to grow their real estate portfolios.

This allowed everyone, on every side, to win!

It is our goal that everyone can enjoy some level of success in The Circle of Wealth, and inevitably lap it several times over!



We hope you're one of them!



Who Is Lee Arnold?

Like most self-made millionaires, I began at the bottom of the financial food-chain. My humble beginnings started as a bag boy at a local grocery chain in Spokane, Washington working for \$3.90 per hour. My first “aha moment” happened while I was aspiring to a management role at the store and was reading the life-changing book, “Rich Dad, Poor Dad” by Robert Kiyosaki. Suddenly my management aspirations looked very small, but my future possibilities became extremely big.

My second “aha moment” happened while I

was sitting in a philosophy 101 course in college. My attention span was divided between the slow ticking of the clock and my professor’s long winded discussion on the economy. While the minutes ticked by, he let it slip that he was making only \$45k a year. That information and the knowledge I gained from Kiyosaki’s book, made me realize I was on the wrong path to success and needed to make some very important changes fast. So, from those experiences and an influential nudge from an incredibly persuasive late-night commercial, I went into real

estate.

I began the way many people do—in the educational and training space. Like many, I went to real estate seminar after seminar and bought course after course. Through long years of trial and error, I built up a very profitable, million-dollar real estate business from the ground up. I’m proof-positive that the training system can and does work! Because of this, I decided to help others by teaching them how to translate workbook education and real estate theory into the real world of real estate investment.

SMARTER INVESTING: Experience & Discipline

It is because of investors like you, that we are able to promote *The Circle of Wealth* and help individuals, of any background, familial, or income status to receive the training, the funding, and the return on their invested capital that they need to be truly successful. It is our goal to make those who aren’t, “Millionaires,” and for those who are, “Philanthropists.” We are grateful to provide a platform where investors not only earn the returns they seek, but also finish each day with the intense satisfaction that their investment allows someone else’s dream to be manifested.

THE
Lee Arnold
SYSTEM OF REAL ESTATE INVESTING

Corporate Office

1121 E. Mullan Ave.
Coeur d’Alene, ID 83814

800-341-9918