Wholesale/Hybrid Real Estate Investment Model

Executive Summary:

The *Basic Residential Real Estate Investment Model* demonstrates our ability to generate superior investment gains through the prudent use of leverage secured against hard assets. This involves acquisition, at or slightly below market value, of homes that are in generally good repair. These are essentially retail investments.

Wholesale investing involves purchasing homes in need of more major repair, at discounted prices, and adding value through renovation. These opportunities are found through court-ordered sales, bank-owned property, or from otherwise motivated sellers. Acceptance of wholesale offers requires the ability to pay cash and to close quickly.

When renovations are complete and a qualified tenant is in place, new conventional first mortgage financing can be put in place. This means that an investor may be able to extract up to 80% of the improved market value. Ultimately we are controlling the same asset, but with significantly less capital.

Adding value through renovation, and this more sophisticated use of leverage, translates into higher returns. Capital raised through refinance can then be redirected to the next project – thus 'recycling' the down payment.

Why You?

This is by far the best question I receive. Real estate investors routinely target returns of 20-40%. They just don't usually share them with you!

It is certainly possible to arrange short-term debt (bridge financing) through private or commercial lenders. Interest rates are naturally higher than conventional financing, but not unreasonable. The problem is that each deal requires at least some new capital, and additional credit when it comes time to refinance. Eventually I will run out of both.

An equity partner is in for the long haul and shares in gains through renovations, as well as cash flow, mortgage principal reduction, and appreciation. Ready access to capital and credit enables us to find and close better deals. It is my intention to earn the privilege of continuing to work with you as we move on to larger deals.

There is risk associated with all investment activity

Seasoned investors identify, mitigate, and manage risk. Single-family residential is considered a low risk real estate investment. Townhouses have fewer variables when it comes to renovation – interior only – so there is reduced likelihood of error in estimates. We are minimizing down payment, but not equity, and you are fully secured on title.

These wholesale purchases do however require cash up front, and the luxury of conditions, inspections, and written estimates may be significantly lessened.

Case Study:

This is the same property profiled in the *Basic Model*. After Repaired Value and rental assumptions are the same. The reason returns are so much better is because of the wholesale purchase price, value added through renovations, refinancing – and, most importantly, because the same asset is controlled with less capital.

You will note that there is a fee for acquisition and project management. This covers lead generation and general costs associated with ongoing attention to investment.

Wholesale/Hybrid Model (recycling down payment)	
After Repaired Value (retail)	$204,000
Unconditional Cash Purchase Price (90% of ARV less Renovations)	$163,600
Closing, Carrying Costs & Contingency (3 months)	$4,400
Full Interior Renovations	$20,000
Initial Financial Contribution (Purchase + Renovations + Carrying)	$188,000
Refinance with new first mortgage (80% loan-to-value)	$163,200
Acquisition & Project Management Fee (2% of ARV)	$4,080
Capital Investment Remaining after Refinance (initial + fee - mortgage)	$28,880
Year 1 cash-flow (rent - PITCM)	$4,219
Year 1 cash-on-cash return	14.61%
Year 1 principal reduction (35 year amortization; 2.5% variable interest)	$2,868
Year 1 gain (cash flow + principal reduction)	$7,087
Year 1 return on investment assuming 0% appreciation (gain / investment)	24.54%
Estimated 5-year value (assuming 3% annual appreciation)	$236,492
Estimated 5-year mortgage balance	$143,315
Estimated 5-year gain (Value + cash-flow – mortgage balance – investment)	$85,392
Estimated 5-year return on investment (5 year gain / investment)	**296%**

Capital Partner:

The Capital Partner's projected net gain is calculated as follows:

Calculation of Capital Partner 5-Year ROI	
Estimated 5-year gain	$85,392
50% of 5-year gain	$42,696
Divide by Capital Investment	$28,880
Capital Partner return on investment (5-years simple interest)	**148%**

Please call if you'd like some help walking through these numbers.

A Final Note:

These deals are difficult to find. A good approach involves a combination of this and the *Basic Residential Real Estate Investment Model*.