How to find great deals: flips & cash flow

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Once you pick a strategy to focus on, finding great deals is the most important aspect of investing. I see it time and time again where beginners look at 5-10 deals, maybe write 2 offers and don't get either deal. Then they give up or they compromise and overpay for a deal that does not fit their criteria. Never do a deal that does not fit your criteria. It is a numbers game, the solution is the get more deals into your pipeline, improve your filter and systems until you find that diamond in the rough. The more prospects in your pipeline and the more offers you write, the more great deals you can cherry pick from.

How to get tons of profitable deals to cherry pick from

The current market conditions have resulted in incredible opportunities for investors. In order to take advantage of the oversupply of opportunities, we investors must efficiently sift through the many available properties and separate the deals from the duds. But first, you need deals coming into your pipeline that fit your criteria. And not just a few, you need an abundance. Here are some ways to get tons of profitable deals to cherry pick from.

1. Have agents do the work for you – Agents are starving these days and will work their tail off for peanuts these days

2. Build an REO agents list – Use Craigslist, Foreclosure.com, web searches or even get agent info from Title companies.

3. Give them your criteria and teach them your systems – Work with the agents to use your effective systems, it will save both of you a lot of time.

4. Use multiple agents to find deals – Agents usually specialize in certain areas and types of deals, multiple agents will bring more deals into your pipeline.

5. Find agents that can feed you properties before they are listed – Being able to snatch up deals with no competition is huge. Prove that you can close on deals over and over and keep getting fed great deals. Bail on a lot of deals without good cause and risk ruining the relationship, treat the bank/sellers with respect and do not waste their time.

6. Target a few areas or cities – Targeting multiple areas will increase the amount of deals you can cherry pick from, just do not overdue it or you may end up with some duds for deals or spreading yourself too thin.

7. Marketing, Marketing, Marketing – There are so many foreclosures these days, but there are still distressed homeowners not in foreclosure. People face financial hardships, divorce, probate, absentee owners, etc. It is strongly recommended to have good targeted marketing campaigns to bring in more deals to your pipelines and the opportunity to negotiate straight with the seller.

How to find motivated sellers without competition

Ever been in a bidding war? Ever lost 10 bidding wars straight? I have and needed a solution. Fact is, many markets have so much competition that bidding wars drive up purchase price way above acceptable LTV levels. First, you must always pass on deals that do not meet your criteria, loosening your criteria is not the solution. The solution is to find motivated sellers without all the competition.

3 must to find motivated sellers without competition

1. **Find lists of motivated sellers** - foreclosure, out of state owners, expired listings, divorce, probate, rentals, lease options, for sale by owner, rehabs, etc
2. **Create a direct mail campaign** - automate a direct mail campaign to your lists
3. **Direct response marketing** – use direct response marketing to get motivated sellers to contact you
4. **Be committed** –It is a numbers gam, the more marketing the more leads. Be committed and consistent with your direct mail.

To find the motivated sellers list talk to title, escrow, county recorders office, your local REI club, fellow investors, web searches, etc. It is useful to delegate list creation to assistants even virtual such as rental lists, for sale by owner, rehabs, etc from craigslist, newspapers, etc.

A final tip - It is possible your market is very saturated and there may be other markets that offer plenty of deals that meet your criteria. Do some thorough research. Many markets have tremendous rent to purchase ratios and great LTVs that result in multiple exit strategies and ability to realize good returns while you mitigate risk.

How to find great deals to flip

1. Define your criteria – Concentrate on areas with strong demand from buyers and limited supply. Single family homes are usually better for flips.

2. Play the numbers game – You will not get every deal for the price you want. Figure out what the property is worth to you and do not go over.

3. Get as many properties into your pipeline as possible – The more properties you get into your pipeline that fit your criteria, the more and better deals you will have to cherry pick from.

4. Create efficient systems to filter out the duds – Avoid timely due diligence on properties that are duds. Quickly figure out what the property is worth to you and whether to proceed with an offer. Due diligence can wait for properties under contract.

5. Write lots of offers – Play the numbers, write a lot of offers.

6. Complete thorough due diligence on contracted properties – Once a property is under contract, you need to have an inspection, get rehab bids, confirm market value, confirm you have multiple exit strategies and make sure you have plenty of equity and cash flow in order to make mistakes and run into surprises and still profit.

7. Cherry pick only the best deals – With a lot of deals that fit your criteria coming into your pipeline, you have the advantage of picking only the best.

What do you consider a great cash flow deal?

What is a good cash flow deal? I was always taught that a good cash flow deal is when rents are 1% of purchase. In this article, rehab is already included in the purchase. So if the property rents for $1000, then you would be willing to pay $100,000 for that property. Would you be happy with that sort of cash flow. Let's do some calculations. At 6% interest on a 30 year fixed, you are paying $600. Add $200 for tax and insurance and you cash flow $200, right? Well, what about property management of $100, and vacancy of 10% or $100. Now you are breaking even. And who thinks they will never have to spend a penny on maintenance? An investor could end up negative cash flow on a deal with these numbers. Then you are left to speculate for appreciation which is completely out of our control.

I believe a good cash flow deal is when rents are 1.5 - 3% of purchase. Or rents are double PITI. In the above scenario we are looking at $1500 - $3000 in rents. That is some great cash flow. Let's look at another example of a great cash flow deal.

Duplex – two 2bed/1baths

- Purchase + Repairs - $50K
- Market Value - $80-100K
- Rent - $650/unit = $1300
- Payment at 6% 30yr fixed - $300
- Tax+Insurance - $100
- Property Management - $130
- Vacancy 10% - $130
- Maintenance 10% - $130
- Total Expenses - $790
- Positive Cash Flow - $510

At $510 positive cash flow per month, the next question is how many of these do you need to fire your boss? If you live frugally like me 3-4 would do the trick, but 10 or even 30 would be much better.

How to Find Great Cash Flow Deals

The most important thing for beginner real estate investors is to find great deals. Not good ones, great ones. Beginners and experts make mistakes and a great deal can handle mistakes and unpleasant surprises and still come out on top. Here are some steps that will help investors find great cash flow deals.

1. **Define your criteria –** Rents should be twice PITI (Payment+Tax+Insurance) or 1.5-3% of Purchase + Repairs.
2. **Define high cash flow areas to target –** Nice suburbs and areas in most cities can result in housing prices 4 or more times some of the cheaper areas. But rents are not 4 times. The areas to find the best cash flow properties are usually in the Ok areas. Some of the most successful cash flow investors make their money with class C or class B properties. Definitely stay out of warzones, but you can cash in the areas that have potential, low housing prices, but rents are really high compared to purchase. Remember, this is a business so you don't have to be comfortable living there. You just have to like the numbers and do your due diligence to confirm success.
3. **Get as many properties into your pipeline as possible –** The more properties you get into your pipeline that fit your criteria, the more and better deals you will have to cherry pick from. It is called playing the numbers game.
4. **Create efficient systems to filter out the duds –** Avoid timely due diligence on properties that are duds or not yet under contract. Due diligence can wait for properties under contract, you must get good and quickly determining market value, ballpark rehab and whether to proceed with an offer.
5. **Write lots of offers –** Play the numbers, write a lot of offers. Worst case scenario is you get a No. It doesn't matter what the asking price is, investors should only care about what the property is worth to them. If you develop a relationship with a source that is feeding you great deals over and over, value the relationship and do not insult them with low ball offers. Just offer on deals that make sense and maybe verbally communicate a lowball.
6. **Complete thorough due diligence on contracted properties –** Once a property is under contract, you need to have an inspection, get rehab bids, confirm market value, confirm you have multiple exit strategies and make sure you have plenty of equity and cash flow in order to make mistakes and run into surprises and still profit. For rentals, make the property rentable, avoid unneeded upgrades that will not add to the positive cash flow.
7. **Cherry pick only the best deals –** With a lot of deals that fit your criteria coming into your pipeline, you have the advantage of picking only the best.
8. **Find Great Property Managers and Tenants –** Tenant and Property Management issues can result is substantial loses. There is no excuse for poor management, find a good manager and pay them well. Many do it yourselfers try to manage themselves and quickly run the property into the ground. This step is crucial to success and will allow you to generate passive income.

4 things to avoid when buying cash flow real estate

Buying cash flow real estate to hold is one of the best strategies in many areas in today's market. However, there are many challenges and mistakes that can be made especially with beginners. Here are 4 things to avoid when buying cash flow real estate.

1. **Leave out management, vacancy and maintenance in calculating cash flow –** I see it all the time. Rent – PITI is used to calculate positive cash flow. If you do not have room for at least 10% property management, 10% vacancy and 10% maintenance then you could end up losing money over time. It is much more accurate to take 70% of Rent – PITI to calculate positive cash flow.

2. **Owner manage and/or get crummy managers –** Many do it yourselfers choose to manage properties themselves and they have no idea what they are doing. Tenants walk all over them, do not pay rent, trash the place and it can all be avoided by obtaining good property managers. Do not be afraid to pay your managers well, they will allow you to sit back and generate passive income and look for more profitable deals.
3. **Too many upgrades –** Do not over do it with upgrades for rentals. You are not living in the home or flipping the home. Only do upgrades that will increase rent, get tenants faster and stay longer or prevent more costly upgrades. I see it all the time though when people say "I just wanted to make the upgrade so I don't have to worry about it". Well, they just threw money down the toilet. Do those upgrades right before you sell, not before you rent.
4. **Buy something they would live in or right near their home –** This one is awesome. I have friends call me all the time and say "There is a foreclosure right down the street that would be an awesome rental". I try not to laugh and ask them about the property, rent and details. Usually the numbers are terrible for rentals but most people are more comfortable investing in their neighborhood so I understand why they do it. But I do not agree with it. Buy a cash flow deal because the numbers make sense and you have multiple exit strategies, not because you are comfortable and do not involve emotions. If you say you like it, you better be talking about the numbers and exits.

To view example deals with tremendous numbers click here, http://www.realreturnrealestate.com/index.php?option=com_content&view=category&layout=blog&id=58&Itemid=89