MAKING OFFERS

Host: Zack Childress

So the big question is this, how do aspiring real estate investors like us escape from the rat race and build real wealth and freedom without access to millions of dollars in investment capital and start to live the life that we know we deserve? This is the question and this podcast will give you the answer. My name is Zach Childress and welcome to real estate investing talk show. Here we go guys.

So let's talk about offers, offers. What is an offer we're right? Well, when do we make the offer? How do we make the offer? Well, let's take a moment and understand that when we get ready to make the offer, if you've been following us this whole time, I've been getting you prepared for the offer. I have been talking about marketing and running numbers and negotiations. That is all what leads us to the offer process. That is what leads us to the point in which that we're ready to present an offer. And that offer could be either on an LOI, it can be on a purchase and sales agreement. It could be on an option to purchase agreement. It could be, you know, on a Napkin. Honestly, it could be on a Napkin.

Okay, so let me be clear with you on something... an offer does not have. Now listen to me very carefully when I say this. An offer does not have to be on a state contract to make it a legal offer. Okay? Let's get really clear on that and I want you to understand that the reason that we use a state contract is to protect the agent's broker. That's the whole purpose of it. Okay? So, if you're buying a property from a seller, you don't need it on a state contract. You could literally have an offer written up on a one-page contract. I could literally write an offer to buy your property on a Napkin as long as I have a price indicated on when I'm going to pay for it. I have the terms indicated on how I'm going to do that, whether with cash financing or seller financing, and I have the close date in which I'm going to actually get the property closed on which part of the terms and I have the initiation of how do I move forward with this contract being legit, meaning like I have a 10 or a 14- or 21-day contingency period.

Now that's the contract. Now how do I make that contract a, a, a valid agreement? I have to have what's called a monetary exchange to validate that agreement, which means it could be a dollar. You understand? It could be a dollar. That dollar could make that contract a valid agreement once that dollar has been exchanged. Um, if there is no monetary exchange, will then the contracts actually not a fully executed contract. So, when you pulled out of it, there's nothing anybody could do. If money hasn't been exchanged, it's not a breach. Um, if you've opened escrow and you've initiated as earnest money deposits, you're now in a valid agreement, you're now in a responsibility to execute on that agreement based on the terms of that agreement. That is what a contract really does, is it creates two parties on the same page moving forward. Okay.

Now, another big question I get about contracts is this is: Well, what about when you know there's earnest money to be, um, to be put up. Do you give it to the seller? No, I do not give it to the seller - what's to say that seller doesn't take my money and run, right? I will always open an escrow. I will always open an escrow. And what is escrow? Let's talk about that. Will escrow is the part that helps us keep things neutral. Okay? So, escrow is the part in which, uh, we have a title company or a real estate attorney in the area open, or they usually have escrows, but we, we put our, our funds, our earnest money deposits in that escrow, and it's held by a neutral party. Why is that? Because the neutral party does not care about you, they do not care about the seller, they only care about the agreement that has been initiated between both parties and what the laws are.

Okay, and why is that important? Because let's say that I want out of the deal and I'm within my inside my contingency period. Well all I have to do, and you should write this down, is you need to go down to your attorney or your title company and ask them for what's called a, an earnest money deposit release form. That's all it is. And they might call it something different. Um, a release of earnest money, earnest money release form they have, they've been named quite a few different things depending on where you go. Okay? That form is a one-page document. You basically fill it out. You say, look, I'm, I'm, I'm, I'm pulling out of this escrow I'm with inside my contingency period. I choose not to move forward. And you sign it and you send it in. Escrow looks at that. They look at the agreement he's with inside his terms and they release your earnest money deposit.

They don't have to call the seller and say, Mr. Seller, is that okay if we released the money? No. It has nothing to do with them. That's why I keep all my funds moved towards an escrow so that I know I can get my money back at any time if I want to, as long as I play my cards. Right. Okay, so when you get into a contract and you're initiating that contract, you got to always remember inside that contract where it says earnest money, I'm going to place $500 earnest money down. I always have a clause in there and you guys should be using our contracts, but I always have a clause in there that states buyer reserves the right to choose title or escrow company that I have the rights, not them. I have the rights. Typically, if you push all the closing fees back to the seller, well then, they would hire right?

They push those closing fees to the buyer, which means what? That the buyer then ultimately could have the say and where they're going to choose because they're paying those fees, but you as the buyer, if you had that one clause in there, it doesn't matter if you negotiate the seller to pay the fees or you to pay the fees, you're going to pick escrow and you want that. You want to build those relationships with your closing attorneys and your title companies. Okay, so that takes us through the offer into the escrow, right? But how do we get the offer to where we can actually present an offer and make an offer clear?

So, offering a vacant property, this is a great strategy. So, once you've identified where a vacant property is or you've actually gotten returned mail because you've done a mailing campaign, which means the property is vacant and the owner doesn't live there anymore, all of those are indicators of vacant. You could either drive for dollars to find vacant properties. You could do a mailing campaign and get the return mail shows that are vacant. Those vacant properties have to be skip traced. They have to be researched to find out where the owners have moved to go get those.

Now, when I made offers on vacant properties in North Richmond, what I did was is I would literally take a picture of the property. I would. I would write my letter out on why they, you know, have this property and how it could be creating a, an a, and it could be creating an issue for them, a challenge for them financially because they're having to pay taxes on it and it's not doing anything. It could create more of an issue because it could be vandalized, which means more repairs. It can become a nuisance to the city or also they could be in a liability if someone was to break into it and hurt themselves. I lay out all the issues that they're going to be faced with holding a vacant property and I let them know that I'm interested in buying it and that I can buy one of two ways. I can pay all cash at a discount or I can give them a little bit more based on the terms program where either they held some of the financing in place or they agreed to do some financing on that property. And then I let them know I've attached a picture of the property and an offer. So, when I'm mail vacant owners, I'm mailing them my letter of intent, which my letter, not a Loi, but my letter that explains their, their pain and what I can do to help them overcome that pain, a picture of the property.

Because if it is a jacked-up property, they need to see that, right? They may not have even seen it in forever. And then I attach my letter of intent, the Loi behind it based on what I'm agreeing, what I'm willing to do to pay cash for it. Um, and that's how I mail them. And let me tell you how many times I got a response back from people that didn't live in California, in north Richmond area and lived across the country. And they'd call me and they'd be like, that's my property. And I'm like, yes, that's your property, and you have people that will break in and sleep in there, and if they hurt themselves, you're liable for that. No, I don't want that property. Is this the best offer you can give me? Well, I can pay you a little bit more if you agree to hold some of the financing, I can take the property subject to or a wrap mortgage or contract for deed or land installment and I'll go in and remodel it and sell it, and when I sell it, then I'll pay you out the note on the property that you're wanting.

I was able to secure those deals by using that vacant mailing strategy to those types of properties owners, a letter, a picture of the property, and a letter of intent. So, I hope that helps you there. Okay, let me say this. You will always get a better deal on a package deal. You'll always get a better deal because here's why. When you start to split that package up, well, the reality is you're going to only want the cream. You're going to only want the good, you know what I mean?

So they're going to be left with the bat and they're going to have a harder time selling it and that's why a lot of people put packages together because they might have three good properties and five bad ones and they're like, well, I don't want to get stuck with the five bad ones, so we just put it all together and say, here, you got to buy the whole thing. You just have to analyze it that way. What's the land? The land's probably useless right now in today's market, unless you're in an area where there's a lot of new construction going on, the mobile home, that kind of the deters me a little bit because who's gonna want to build a house next to a mobile home, right? Unless the lot is just dirt cheap and you can actually put another mobile home on it. Um, I would just, I would tell you my advice to you would be to take the whole thing down. If you could look at it from a point of view is there's a house, a lot, and a mobile home, is that correct, Jill?

Okay, I got you. So, there's a house and then there's a mobile home on the lot. Okay. So obviously the mobile home is a rental, did she say if the house is a rental? She didn't say? Well, I mean I would analyze it two ways. I would analyze it from the point of view is either taken the deal down and what would be the potential cash on cash return off of it. So, my offer would be based on that. My offer would be based on what I want as a cash on cash return to where I would present them that offer to get that. The other side of it is, is what does the house look like versus the lot next to it and could you really sell that lot off to a builder in the area that could come in and build a new house on it.

Because I helped a student do that locally, so they had a house with a lot next to it and they really didn't know what to do and I said, look, take the whole thing down, sell that lot to a builder, let him build a new house on there and then remodel the house you're in because you'll get the comp next to the house next to you, and so they were able to sell the house that they originally thought the ARV would be like one $175k. They ended up getting $215,000 for it because they waited for the new lot to get built with a new house on it, which increased the value of the neighborhood and so it was a great play for them. So that would be a strategy on that. All right.

Let's talk about this. What is a three-option offer? What's a three-option offer? Well, let me tell you, it is really powerful when you consider like if I'm trying to buy a property from a homeowner, I will absolutely say, look, you've got three options here. Either number one, you fix this entire property up and I'll pay you x amount. So how does that look? Well, you basically take the ARV minus closing fees minus your profits. That's what it is. That's what you do. What is it going to sell for? What is it going to cost me to sell it? What are the profits I want, and then that's my first offer. It's that number. It's the highest number you can pay, but it requires them to do all the work, right? You fixed the floors, you fix the walls, you paint it, you know you fixed the roof, you do all this stuff you need to do and this is what I'll pay you.

So that's an easy deal, right? Look, I would love all of them to do that, right? Because then I just basically taken over. Then I sell it and make my profits and move on. Your second offer is you say, look, if you just do THIS, right, if you just take this cash offer, do nothing. It's an as is offer, right? It's an as is offer. You basically do nothing. You just take my cash offer. What's the cash offer? It's ARV minus resale fees, minus holding costs, minus fix up cost minus profits minus purchase fees. And there you get a subtotal which is you're gonna start below that. That's my cash offer. You walk away.

What's my offer three? Offer three is basically it's going to be very close to your offer one. And in some cases, it could be more than your offer one. So, let's say offer one was 200,000, offer two was 125,000, right?

We'll offer three. Could be 215,000. If the property's worth, say 225 or 2:30, right? It gives them more. But it's a terms program. So yeah, I'll give you 215,000, you know, you leave the property as is and I want a 15-year term. Why would I ask for a 15-year term? Because here's why. Over 15 years, you know, I'm going to be able to rent that property out. I'm going to absorb almost all of my profits through the rental aspect of it. You understand? That's the beauty of that, that's option three, you agree to a higher price, but you asked for the longer term in it so that you can actually make your profits from the rental, from the cashflow. So, you gotta make sure that the price point is going to be low enough, the payment's going to be lower than the rental market so it's like acquiring a free rental property, right? So, I just get the cashflow for 15 years.

Let's say you make $200 a door are $200 a month off of it times 12 is 2,400. Say you times that by 10 years, you made $24,000 off of that property over 10 years that you never bought right? Now, here's the other thing, if I agreed at $215 with them now who's to say in 10 years that property's not worth $260 to $270. You understand? So now when I go to sell it, there's a back end profit off of that deal as well. So. So you can pay more on the third option as long as you're secured by the cashflow. So, you gotta make sure you measure that out and that you're not in an area that hasn't appreciated it all over the last 10 years.

And why? Why am I saying that? Because you got to go back and you gotta look at, you know where properties, what that neighborhood is done over the last 10 to 15 years. Typically, you're going to find what's called a 10-year cycle and when you go back and look, you're going to see, oh well look, it was going up, but then it came back down. But now it's on. Oh, it's, look, it's back on the rise again. So, you've got to be able to position yourself for not this, right? This is where people get in trouble. They go, oh, well it's going to keep going up. So, I'll do a five-year term. Well the problem with that is as if it's going up right now in five years, guess where it might be? It might be on the downturn. You follow me? Well now you're stuck.

So that's why you gotta say, well look, I'm willing to do this for 10 years because then if it goes up and it comes down over 10 years, it's going to work its way back up again. So, you gotta make sure you're looking at the future process on this. Now that's a three-option offer, works all the time. The other side of that is when you're making an option offer, if you have a highly motivated seller, they just can't keep up with the payment, they're facing foreclosure, and you're the only person that knows how to save him. You never give them a price point on the contract. The purchase price is always to be determined at time of close for balance on loan to be determined at time of close for balance on loan. Which means if you've got a ten-year agreement at the balance of that loan, they might only owe 80,000 and it's worth $240. Now you've got yourself a really good deal that nobody else wanted to do. So that's the three-option offer.

All right, so let's talk about what to offer. So, we're going to make an offer. What do we offer, right? Like what do we offer? This goes back to what I said in the beginning, we only offer what our risk management tells us to offer. We don't just offer a price because we assume that, oh well they're asking this and if I want this, it's too low. I might need to bring it up. Listen, let me say this to you. If you're not embarrassed by your offer, you offer too much. Point Blank, point blank. I had to learn that the hard way. Okay? I'm trying to save you guys years of mistakes by just listening to what I'm doing. Okay? So, when it comes to making that offer, remember it goes back to what we said.

You start with your ARV and you work your way down and you determine what is the offer that's going to work for you and you're going to have to negotiate that gap. You got to negotiate that gap. I mean this is one of the biggest things we talk about at our two-day immersion is how do we negotiate the gap? We have to get them off a sales price and get them onto the equity and only negotiate the equity. You got to. You can't negotiate a $300,000 house and think you're going to get a good deal. Now, can I negotiate $80,000 of equity? Absolutely. It's a lot easier, right? It's a lot easier because I have detached the emotional aspect of the house to the profits, so. So, when you're thinking about that, remember when you make the offer, make it based on what you want and then if you think, oh well my offers really low, then do the three-offer option.

Do the three-offer option. Give them three different price points and say, pick, pick. Hey, you go at your option, you pick. I can do either one of them. I had one guy send me a one for my house one time it will, but it was six offers on it. I thought, well that's just a little too much. I was confused. I didn't even read past the fourth one, so that takes me to the next one to making an offer before you see the property.

Lot of people are very confused about this. Okay. A lot of people say making the offer before you see it as dangerous. It's not. It's absolutely not. It's the most efficient way to get offers out because.... let me explain why. You're talking to a guy that I can make an offer on a property within five minutes where when you see it, you're going to go evaluate it, you're going to run the numbers. Maybe tomorrow you're going to double check it. Maybe then by Friday you're going to go look at it. Guess what? I've already bought it. I've already bought it because why? Because I'm not afraid to put an offer on a property and if I don't like it used my contingency period to get out of it. I'm not afraid of that and you only would be afraid of that because it's the fear of the unknown, right? It's like I've never done it. I'm afraid of it. That's why you got to understand a contract has contingency periods. You, if you're using our contracts and our courses we give you, we put in there a 30-day contingency, why do we start with 30 day? So, they can negotiate us if they want to down to 21. Um, if you're dealing with agents, it's really hard because they give you seven, maybe 10 days to contingencies so that your window to get in and get out.

So, I run my numbers. Well, people say, well, what about the Rehab? Well, I know my rehab, I know I can rehab a house for $12 a square foot. I know I can remodel a rental property for five to $6 a square foot and that's doing a lot in it, you know? So, the point is, I know those numbers. You have to know those numbers. That's what a coach will help you do to. And if you haven't gotten my book, you need to get my book. It talks about it in there too. I don't know what you're waiting on. Get that book. That book, My First Deal Playbook. Go to Amazon Dot com right now. Search My First Deal Playbook. Get a copy of that book. I'll give it to you for free. You just got to pay the shipping and handling. I think Amazon charges like six bucks or something like that to ship it out to you.

So. Alright. So, offer before you see the property, lean on your contingency. Okay. Lean on your contingency. That's how you stay safe and offering on properties before you see them. Okay.

The last thing I want to talk about with you today is addendums on offers. Okay. People say, well Zach, how do you get into negotiating with agents and people who send you the offer first? I don't, I don't negotiate... it's a waste of time, it's an absolute waste of time to get on the phone and try to talk to him. I believe so you know what I do? I use an addendum for my negotiation. So, what's an agenda? You might ask me? Well, an addendum is actually an additional contract to the contract and the beauty of the addendum is it actually supersedes anything in the contract. So, if you send me a contract stating that you want me to buy it for $125,000, I got a seven-day contingency and uh, you know, whatever else that I pay all the closing phase, I'm not going to call you up and argue about it.

I'm just going to write my addendum and I'm going to say purchase price $101,000, you know what I mean? Closing fees to be split, you know, contingency period. Twenty-one days. And I'm going to sign the contract and under my name I'm going to put a little star and I'm going to say see addendum and I'm going to attach the addendum to it. I'm going to send it back to you. So, when they call me or text me or email me. Hey, did you get the contract? Yeah, I'm sending it back today. Oh, well hey, he's signing it. Well, when it gets some back guess what? I attached an addendum to it. The addendum is my negotiating a contract without ever negotiating it is. Look, I agree with everything else in there, but these nine items on the agenda, this is what I'm willing to do.

You sent me the contract first, fine. I'm going to send you back an addendum with what I want, so never worry about if someone offers a contract to you first, it's fine. Send it over. Just know that that's what an addendum for. It's an addendum to a purchase and sales agreement. It basically identifies everything in that agreement that you don't want or you want to change and you supersede it by putting it on the agenda. It is the best way to negotiate a contract without ever getting on the phone with somebody. Now, are they going to want to call and talk to you back? Sure, let's talk, but now am I trying to negotiate their terms or are they now trying to negotiate my terms? You get it. I've got them now trying to negotiate my terms, so who's in control? I am. Right? So, the little things, you've got to think about it in the offering process, guys, little things that will help you identify this. Okay?

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