



THINK REALTY

THE MAGAZINE FOR REAL ESTATE INVESTORS

MARCH/APRIL 2017

Triumph Times Two

KELLY AND CHRIS EDWARDS FORGE A PATH TOGETHER

PAGE 18

+ ONE-TO-ONE: JOE FAIRLESS

HIS 'BEST ADVICE' ON MOVING TO MULTIFAMILY

SPECIAL FEATURE

— WOMEN TO WATCH: 10 WHO ARE MAKING THEIR MARK IN REAL ESTATE

+ TRENDS & ISSUES

AWASH IN CONCERN OVER RISING TIDES

+ STRATEGIES

5 PRIME SPOTS FOR RENTAL INVESTMENT

MARCH/APRIL 2017
\$5.95 U.S. :: \$6.95 CAN



THINKREALTY.COM

A Matter of Choice

ATTENTION, FLIPPERS: CHOOSING THE RIGHT LENDING PARTNER CAN BE THE DIFFERENCE BETWEEN A PROJECT PROFIT AND A LOSS.

by Robert "Bobby" Montagne

2 016 was a solid year for the real estate industry, and the ranks of fix-and-flip rehabbers continues to swell. According to RealtyTrac, 5.1 percent of all condo and single-family-home sales in the third quarter of 2016 were of the fix-and-flip variety, totaling 45,718 transactions. As fix-and-flip properties remain a sizable share of the real estate market, the need for acquisition and rehab financing, likewise, rests at the forefront of project requirements. In a 2015 article, Bloomberg reported the annual origination volume of private money loans to flippers was \$30 billion, and as real estate values continue to climb, it's a safe guess that number is on the rise.

With so many builders, developers and real estate investors in the industry, it has become more important than ever for flippers—whether new to the game or seasoned veterans—to choose the right lending partner.

SELECTING A PRIVATE LENDER

Let's assume you are embarking on your first, second or even 10th flip, and you've decided to obtain financing from a private-money lender. How do you figure out which one to use? Look for lenders with the following traits.

NO. 1 PRICE AND SERVICE

Picking a lender based solely on interest-rate and loan-to-value metrics is a common, though understandable mistake. After all, experienced flippers

and new entrants alike comprehend the intuitive concepts of "cost of capital" and bottom-line budgeting. To properly choose the right lending partner, however, it is imperative to understand the total package offered by the lender: price and service. The right lender is responsive and takes the time to meet you, learn about your project and understand your renovation plan and vision. Indeed, a premium lender will understand that his or her interests and your interests are in fact aligned—the smoother the project, the more profit to be had by all parties, and the sooner you and your lender can move on to the next project together.

NO. 2 KNOWS YOUR BUSINESS

There are "known unknowns," and there are "unknown unknowns"—either way, lack of knowledge in this space can undermine the most determined flipper. Undoubtedly, knowledge is one of the keys to avoiding obstacles that can stymie progress. Ideally, look for a lender with real world experience as a builder-developer, with specific industry knowledge and resources that can help you succeed. There is simply no substitute for firsthand experience when it comes to home flipping—in other words, the kind of knowledge that can only be obtained through a long history of building and developing properties. New flippers, in particular, might not have the experience or support system needed to dig out of a proverbial hole, and a lender with on-the-ground familiarity may be the right resource to lean

on for creative solutions.

NO. 3 EXPERIENCE KNOCKING DOWN OBSTACLES

A lender with significant industry and building experience will help you knock down—or better yet, sidestep—complications throughout a project. For example, navigating the permitting process with minimal or no delays is an art form in many locations. What can be expected of inspectors and local policymakers? Who are the right contractors, what are the market prices for labor and materials, and how can you formulate accurate estimates? A lender with sufficient experience and the ability to knock down obstacles can offer big-time support—the kind that can make the difference between a profit and a loss, for both new and seasoned flippers alike.

NO. 4 LOCAL PRESENCE

Buying the right property at the right price is paramount in successful flipping and often determines the profitability of a project. But what if you live in an area with a scarcity of homes that are ripe for rehab, and you are wholly unfamiliar with the areas that do have the best available stock? Schools, traffic patterns, comparable properties, economic conditions, demographics, upcoming projects awaiting approval, crime, transportation and a zillion other data points all help flippers decide whether a particular property is the right one. Websites and other data aggregators can supply some of this



information at the community level, but you need to know about the block your property sits on—in other words, a level of granularity that only local expertise and experience can provide. Lenders with a local presence know these neighborhoods inside and out, and they can help guide you toward a successful property and project.

PICKING A WINNER

For fix-and-flip projects, your profitability depends on buying right, renovating smart and selling fast, all while keeping delays and obstacles to a minimum. Partnering with a lender who can help you do all these things is critical to your success. Look for a lender who takes the time to understand you, your project and your neighborhood and has the lending and building industry experience to help you through

the inevitable issues that will arise.

As is often the case, you may find yourself trying to choose between two lenders. The first is a lender with no construction experience who ran your project through an algorithm and is willing to advance 70 percent of the projected after-repair value of the property. The second lender, with a successful history of building and development, knows the right questions to ask about your specific project and provides valuable input to advance your project profitably. The second lender also offers several renovation suggestions, verifies your construction budget based on experience with the same type of renovation in the same neighborhood, and offers insight into the timing of the various construction phases and the velocity of trading in the area. You quickly realize the second lender's knowledge and experience are invaluable, and the

decision, in your mind, is an easy one.

So, when evaluating hard-money lenders, ask them about their own building and flipping experience, and give top consideration to a lender who has performed many projects in the local area. At a strategic level, your vision is to build a successful enterprise, and by selecting a lender who understands this long-term vision, you'll be one step closer to achieving your goals. •



Robert "Bobby" Montagne is a real estate entrepreneur with three decades of experience in commercial and residential property development, finance and sales. Having successfully overseen \$15 billion in career transactions, he is among an elite class of real estate innovators that have consistently delivered high-quality returns to partners and investors. A native of Fairfax, Virginia, Montagne earned a bachelor of science degree in economics with honors from George Mason University and a master of business administration from Virginia Tech.