

THE

REAL ESTATE

REHAB INVESTING

BIBLE



FREE
PREVIEW!

Chapter 1:

How To Make A Profit On Your First Deal

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www.RehabInvestingBible.com

PAUL ESAJIAN

As seen on A&E's *Flip This House*

WILEY

CHAPTER 1

How to Make a Profit On Your First Deal

You may think that you need to have a lot of money to break into the real estate industry—but that couldn't be further from the truth. Neither prior knowledge nor a bank account full of cash is a requirement. Yes, you can take advantage of more opportunities if you have both experience and money. However, we all have to start somewhere. In the words of one of my coaches, “Every master was once a disaster.” No one knows what they're doing right at the beginning. But we all start somewhere.

MASTER REHABBING NOW

One student of mine, a professional football coach named Scott Squires, was overworked and traveling nonstop. Although he enjoyed his job, it did not provide him with the personal or financial freedom that he desired. He wanted to spend more time with his three kids. Scott took the first step to having that kind of life by participating in our real estate coaching program. He had absolutely no real estate experience, but he started following the principles laid out in this book. His first deal in Southern California was a HUD home that he purchased for \$350,000. He ended up spending \$13,000+ in rehab costs and sold the property for \$415,000. He bought, rehabbed, and sold the property within 84 days and made a profit of \$49,000—which allowed him to spend more time with his family and leave his day job. If you want to hear Scott walk you through his first deal, you can listen to his story here: www.fortunebuilders.com/video-case-studies/scott-squires.

A mere two years later, Scott sent me a text message telling me about his latest deal at the time: using my rehab system, Scott made a profit of \$216,000 on one deal! By following the same rehab system I share in this book, Scott no longer travels for work—and he is able to spend as much time with his family as he wants.

You're likely wondering at this point if my system can truly apply to your situation—perhaps even convincing yourself that this just won't work. You may be thinking that Scott is an isolated

scenario—real estate success can occur anywhere and to anyone. Imagine instead the success you will enjoy once you commit to your own goals. If you apply the principals, knowledge, and enroll coaches and mentors to successfully move forward, you *will* experience the results you desire.

How does a full-time radio DJ and a high school science teacher with no real estate experience make money on their first rehab in Richmond, Virginia? Jeff and Joanna Anderson got their first deal from a marketing campaign I will share in this book. They financed the purchase price of \$80,000 with a hard-moneylender (which you'll learn about in Chapter 7, "Financing Rehabs"). After spending \$61,000 on the rehab, they sold the property above their asking price for \$215,000. That is a \$45,400 profit—on their very first project. Check out Jeff & Joanna Andersons first rehab profit here <http://www.fortunebuilders.com/deals/jeff-anderson/>.

If you enjoy learning, self-improvement, and making large amounts of money, then you have come to the right place. Again—I am not offering a get-rich-quick scheme. It takes hard work, commitment, and a positive attitude. More importantly, it requires you to take action *now*. So let's get you started on making your first real estate rehab profit!

OUR BIGGEST OBSTACLE

To make progress, you must take advantage of the knowledge I share throughout the next 22 chapters. It is entirely up to you to start achieving your personal and financial goals.

The biggest obstacle you will likely face is fear. People are afraid to fail, to be unprepared, that it'll be too difficult, that they won't have enough money. Some people even fear *success*. These are all legitimate concerns; but the way you handle this fear will dictate your future as a residential redeveloper.

Work finally begins when the fear of doing nothing exceeds the fear of doing it badly.

—Alain de Bottom

Most people see fear as a stop sign—but really, it's a pay attention sign. That twinge of worry in the pit of your stomach is a signal to pay attention to what you don't know, what you need to know, and what you are already familiar with. Think about an opportunity that you knew you wanted to take, but didn't. What held you back? How will that be different this time around?

Once you change your perception of fear, you will notice countless opportunities. More importantly, you'll spend your time and energy more productively. Instead of avoiding fear, you should welcome fear with open arms. When you identify fear, then you have just identified what you need to learn and gather more information to move forward with confidence.

You don't have to know all the answers; you just need to have access and be willing to approach those who do. Henry Ford was not the best mechanic, nor did he know every detail about building a car. However, he had no equal when it came to recruiting the smartest and most talented individuals. The people you surround yourself with are integral to your success as an investor.

MY STORY

Whenever I sit down for a lecture, read a book, or take advice from someone, I always ask myself: Why should I be listening to this individual and what credentials do they have that make them an expert? Since you're likely wondering the same about me, let me share some statistics regarding my experience in the real estate industry.

Over the last decade, I have managed over 1,000 residential real estate transactions. I have spent over \$35 million—from renovation materials to contractor fees for single-family homes—in states from Connecticut to California and everywhere in between. I currently manage and operate an eight-figure investment portfolio for my partners and me through real estate.

I know what it takes to begin at ground zero. I started with no money and zero real estate or construction knowledge, yet was able to create successful real estate transactions and a thriving real estate business.

When I graduated college, I had a degree in Agricultural Economics—earning what many may consider a degree in farming. Then I went through an entire year without a job. I initially took a job as a bar back and after a ton of hard work, finally became a bartender. The only things I ever flipped before houses were cocktails and dreams!

There were a few things that allowed me to bridge the chasm between bartending and rehabbing:

Step One: Embrace every learning experience that presents itself and read material relevant to your goal.

Step Two: Enlist the help of coaches, mentors, and professionals.

Step Three: Do not allow failure to impede on your inevitable success. And yes—you will fail. However, the sooner you embrace that failure, the sooner you can overcome it. If you fail with knowledgeable mentors and coaches supporting you, you'll find it much easier to pick yourself up and keep moving forward. Too many believe that a single mistake will lead to their demise. But allowing yourself the liberty to make minor mistakes only moves you closer to achieving your goals. Some of my best students did not let the fear of failure keep them from their goal of making money as a new real estate investor.

My First Rehab

The first rehab property I purchased was on Mead Street in New Haven, Connecticut—and I remember it like it was yesterday. We purchased it on a Saturday morning foreclosure auction. My partner and best friend since junior high, Than, and I dispatched to different auctions that morning with our last bit of money scrapped together into a bank check that we needed to take part in the bidding process. I ended the day without success winning any bids—and then got a call from Than, telling me he won the bid for Mead Street for \$75,000. I then asked what seemed to be the next logical question: “Where are we going to get the money to close on the property in 30 days?” I guess he gave me his best shot at a logical answer: “I don't know.”

This was our first lesson in using leverage to get our real estate business going. We employed a very technical fundraising application called dialing for dollars—that is, we literally called every number in our cell phones to raise the money needed to close on this property. What we were not able to borrow from friends and family we borrowed against our credit cards, increased our credit amounts, and got cash advances. This approach may not work for everyone; but it was all we had, and we wanted that deal.

Once we closed, we estimated a rehab budget for the property and set out to find and work with contractors to get the job done and put us in a position to sell the finished house. We probably made every mistake a rehab investor could make. We did not use a scope of work; we did not use contracts with all of our contractors; and we certainly did not develop an organized, well-thought-out payment schedule that would motivate our contractors to complete the house on time and within budget. However, we were lucky enough to sell the house for more than we estimated—and enjoyed a net gain of \$27,000.

I have to ask myself when I look back, “How on earth did we make money on that deal?!” Neglecting to have a true system in place can get you in trouble—and it usually does. In the business of rehabbing, you can make a lot of money—and you can lose a lot of money.

The difference between the two lies in following a proven path, implementing a system that others have used successfully, and enrolling other people to support and help you achieve results. This will give you the confidence of accomplishing a known outcome each and every time.

Before our first rehab on Mead Street, Than and I started with the idea of buying multi-family rentals. I thought we would kick our feet up, collect rent, and call it a day. So the first properties I bought as an investor were rentals. I was immediately made aware of the problems landlords encounter on a daily basis. In short, being a landlord was not fun when you are not good at it. More importantly, I was on a path to get rich slowly, if at all.

I was constantly chasing tenants for rent and had made the mistake of buying buildings that had years of deferred maintenance. This approach forced my partner and I to reevaluate our business model. How could we make large sums of money in a three- to six-month period of time? Unlike rentals, rehabbing did not create monthly cash flow. However, when you completed a rehab job and sold it, the profit potential was 30 times that of a monthly rent check. This is why it is so important for you as a real estate investor to do the business niches in order. Start by making money rehabbing, then move those profits into long-term, passive income rentals.

In 2004, we enlisted the help of a couple crews and completed multiple rehabs and wholesale deals. By our third year, we set out to complete 100 deals a year. At this stage, we had built systems, hired team members, enrolled coaches and trainers and we wanted to really test our model. After three short years, we surpassed our goal and completed 104 deals, with the majority of them being rehabs.

When I got into real estate, I was learning a discipline that I could use to make money anywhere and at any time. But more importantly, it served as a vehicle for the lifestyle I wanted to live—in California, closer to my family, by the ocean, and able to wear flip-flops during the week. We call this *lifestyle by design*. Thus, in 2009, my company and I moved from New Haven, Connecticut, to San Diego, California. I now live in a beach community, wear flip-flops whenever I want, and can walk from one of my houses to work, the ocean, or my offices in just a few blocks. Lifestyle by design!

Your Turn

Write a paragraph of what your lifestyle would look like if you had 100 percent control over where you lived, with whom you worked, when you worked, what you wear to work, and so on. This vision exercise will get you excited about moving forward with the goals you have for yourself and the results they can produce.

THE OPPORTUNITY

Have you ever been driving or walking somewhere and noticed a property that needed some love? You know—the one with a front lawn taller than your waist or that needs an exterior paint job and siding more than you need a haircut.

Our first myth to dispel is that you can make a profit on *any* house. You can only make a profit on the right house—the one that needs work, has a problem to be solved, and has an owner who is motivated for you to create a win-win to buy it. When you find the right house, you can then implement the seven-stage rehab system without lifting a paintbrush.

In every market—up or down, buyers or sellers—there is always someone telling you that now is not a good time to invest in real estate. Ask yourself the following three questions when you hear that advice:

1. Does this person make 10 times more than I do financially?
2. Does this person have the lifestyle and freedom of time that I desire?
3. Is this person even experienced and currently making money in real estate?

Ninety-nine percent of the time the answer to these three questions will be no. Everyone has an opinion. If I listened to everyone who told me that now is not the right time to get into real estate, I would still be at my first job.

THINK LIKE AN INVESTOR—NOT A CONTRACTOR

Each level of income you desire demands a different version of you. If you approach rehab as a do-it-yourself hobby, you'll see that in your return. Your time is not best spent painting the house yourself to save money. This is a trap that prevents many would-be investors from actually getting to the next level. The next level is when you spend less time on one deal, make more profit on that deal, and spend your time on things that are more important than real estate.

My golden rule on rehabbing real estate is, “Never get your hands dirty.” Our job is to find motivated deals, raise money, and manage a successful rehab. You are in the business of turning money. How quickly can you put one dollar in so you can get three dollars out? When this becomes second nature to you, you will realize that rehabbing is a vehicle for multiplying your dollars. When you save money by doing the work yourself, you are slowing down the job, putting out sub-par work, and missing other opportunities while you are working on site.

Basically, by getting your hands dirty, you slow down the opportunity to get your money back sooner. Ultimately your job is to put one dollar out of your pocket as an investor and see how quickly and efficiently you can bring two dollars back in your pocket.

Put your contractors in a successful system; this shows respect for their time and ability. Make it clear that you are not an errand boy or girl to fetch materials for the house. You must have enough confidence in yourself to truly understand where your time is best spent—and the following chapters of this book will show you just that.