

Should I Do The Deal?

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One of the most asked questions in REI (real estate investing) is “How do I determine whether to say yes or no to a deal? In other words, should I do the deal or walk away?”

This question has many answers, but the most basic answer is this: **What are the numbers?** Asked another way, if you buy the investment property, are you going to make or lose money?

A common mistake made by new and seasoned real estate investors is paying too much for a property. Unfortunately, if an investor pays too much for a property there is no way to fix the problem. Just get ready for many sleepless nights. Want to guess how we know?

Back when we first started, we attended a seminar – it may have been taught by John Adams. The instructor talked about the importance of knowing *all* of the numbers *before* a property was bought. He passed out a fill-in-the-blank form. After the form was filled in with the appropriate numbers, it helped an investor determine whether to do the deal.

Over the years, we have made improvements to this form. We call it our Deal Analyzation Form. If you would like a free copy, let us know and we’ll email it to you.

Here are the basics of the form:

1. Your first number is the CARV (Conservative After Repaired Value). This number is, after thorough research, what you estimate the property will *conservatively* sell for after it has been rehabbed.
2. From the CARV you will subtract your minimum acceptable profit. For some investors this number may be \$5,000 per deal. For other investors it may be \$30,000 per deal. The great thing about real estate investing is that you decide how much you will make - not your boss.
3. Finally, you subtract all of the expenses. In most real estate investing deals there are many expenses. For example: Closing costs to buy and/or sell the property, rehab expenses, carry costs, etc. It’s very important to know what your total expenses will be before you buy.
4. Then it’s time for the mathematics. Write down the CARV. Subtract your minimum acceptable profit and then your expenses. This will give you your estimated net profit or loss. NOTE: If your number is positive, it is a net profit. If your number is negative, it is a net loss.

Bottom line is this, if you have a net profit, the deal is probably worth doing. At the very least it deserves more study. However, if you have a net loss, running from the deal is a good idea.

It goes back to an old REI saying: An investor makes his profit when he buys the investment property. He is only collecting that profit when the property is sold. In other words, look at all of the numbers before you buy a property.

Here's an example of how we use our Deal Analyzation Form.

Yesterday Beth, who is also a local investor, and I were out making offers. We found a house with the asking price of \$178,000. I asked Beth to determine the CARV (Conservative After Repaired Value). She said the CARV was about \$170,000. Then I asked her what would be her maximum offer. She said it would be \$150,000. Then I asked what would be her minimum acceptable profit if she did this deal. She said she'd need to make at least \$20,000.

Let's look at the problem with Beth's \$150,000 offer. If the CARV is \$170,000 and you subtract her minimum acceptable profit of \$20,000, it equals \$150,000. What about all of the expenses? See the problem? In order for Beth to do this deal, her offer needs to be a good bit lower than \$150,000.

Beth re-did her numbers and we made our offer. How much was it? About \$135,000.