Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

March 2020

Letter from the Editor

Happy Spring! We had a very productive February. We closed four loans, which were all First Trusts. March will be slow due to COVID-19.

Please join us in extending a warm welcome to our new investors in the Clear Sky Financial B fund, Felicia & Colin Blair and Micah Strait.

CHUCKLE'S CORNER

"The best luck of all is the luck you make yourself."
– Douglas McArthur

Food for Thought

Like many others, we are very concerned with the economy due to COVID-19. To combat our concerns, we are tightening up our lending parameters. We feel the prices in the Washington, D.C. area are going to correct 10-20% during this market slowdown. Some borrowers are unhappy with the tightened parameters, but we feel that the measures we are taking are very prudent in these times. Right now, we believe your money is safer in hard assets, such as housing (Clear Sky Financial), than in the stock market!

In This Issue:

clear sky FINANCIAL

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Six Best Practices for Flipping Houses and Maximizing Profits

One of the ways to earn huge profits in the real estate market is by flipping houses. Like any investment endeavor, however, it involves a lot of work and risks. It is important to approach flipping houses carefully and with as much knowledge as possible. So how exactly do you make money from buying houses, renovating them, and then selling them down the road? Below, please find six best practices for flipping houses and maximizing profits.

1. Make Sure You Have Many Funding Sources
The main idea behind flipping a house is to buy a relatively affordable property, renovate it, then sell it for a profit. The most important thing you need to have is the funds to enter into this business. Thus, you need to make sure you have many funding sources. A funding source can be your own cash, borrowing power from a bank or banks, HELOCS, credit cards, or, of course your regional hard money lender like Clear Sky Financial.

2. Invest in Standard or Entry-Level Homes
The housing market offers a wide range of property options, from condos to townhouses to semidetached (duplexes) to single-family homes. How do you decide which of these to flip? Answering that question depends on your level of capital, experience in the house flipping industry, and tons of market research. If you are a beginner, a good approach is to go for an entry level home in your market, as there should be enough demand for that. An entry level property should have three to four bedrooms, be appropriate for a small- to medium-sized family at about 1,200-2,000 square feet, and have an entry-level price tag (which will vary depending on the area). The idea is to find a property that will not be difficult to flip later on. Also, it is ideal to select a house for which renovation costs will not be too high.

3. Find a Profitable Location/Neighborhood
One key point to keep in mind when fixing or flipping homes is that, while you can increase a house's value, it will be more difficult to improve its neighborhood. Therefore, always research the locations of any investment property you are considering to maximize return on investment.

4. Research and Analyze Market Data
Assess your property options as carefully as possible. Do your due diligence, gather all of the important data, and make informed decisions. Analyze risk versus reward, understand the costs of renovation to avoid costly surprises and mistakes later on, and buy houses that only need cosmetic upgrades to maximize profits.

5. Buy/Renovate with an Excellent Team
House flipping is largely about working with the right people. You may be able to do market research by yourself. However, once you start the process of buying an investment property, you'll have to work with other professionals. Be prepared to interact with Realtors, lawyers, and lending partners. Once you are ready to start the renovations, you will also need to find an effective contractor. Make sure to vet any professional you decide to work with by checking their portfolio, finding out what their past clients are saying about them., and checking with your local jurisdiction to make sure the contractor is licensed and insured.

6. Flip the Home as Quickly as Possible
The longer your investment property stays on the market, the more expensive it will become for you. You will have to pay for holding costs while it is under your name. Holding costs may consist of loan payments, utilities, taxes, insurance, and maintenance or landscaping costs. Work with a Realtor and a staging professional to market your renovated house as effectively as possible. For maximum profits, a quick sale should be your primary goal at this stage.

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A Financial Journey – Part Three of a Three-Part Series

This month's article is the third and final part of a series designed to help you conceptualize where you are on the roadmap to wealth in residential real estate investing. Whether you are just starting out and have a zero net worth, or you are working with millions of dollars, you are on a financial journey that includes or may include:

Home Valuation - Distressed Asset Acquisition - Investment – Property Management – Contractor Management – Direct Contracting - Capital development – Note Origination – Fund Development – Fund Management

If you are interested in residential investment real estate, you can find financial and professional rewards at any point along this path. In this month's article, we examine the following steps:

Note Origination – Fund Development – Fund Management

Note Origination
If you have broadened your interest in real estate investing to note investing, there are several ways to invest directly in notes. You can originate a note or you can buy a note that is already originated. Note origination practices vary between jurisdictions, and you will need state-specific legal documentation for your note and the encumbrance on the property. Failing to originate a note within state guidelines may make the note difficult to enforce.

Additionally, there is an entire regulatory framework that needs to be understood. Every state has consumer lending laws to protect consumers from unfair lending practices. Unless you are a licensed lender, you don't want to originate any loan that is in any way a consumer loan. If you are originating a business to business loan as a note that is secured by real estate, you need to understand the legal parameters for doing it and the underlying asset. A good loan is not just about the underlying asset, it is also about the repayment strategy. You need to ask yourself and the borrower, "Does the borrowing entity have a way to service the debt? Are they able to repay the loan on or before the maturity date?"

Once you have covered your bases with understanding the legal side of the transaction, the underlying real estate, and the borrower, you can originate your own notes. You can also purchase a note that has been originated. If it is a non-consumer loan, it can be a fairly straightforward investment. In these cases, you will need to understand all of the terms of the loan and the payment history. You have to understand how the borrower is going to repay the loan and the risks of default. If the rate of return on the loan meets your investment criteria and you believe that you have a full understanding of the borrower and the asset, the note might be worth buying.

Fund Development and Fund Management
Fund development and fund management for real estate note related funds are very broad issues, which touch on every level of the real estate investment process. Organizing a fund and a management organization requires a committed legal team. There is a host of documentation and compliance work needed to put a fund and management company in place. Beyond the legal work, there is the larger process of raising funds and deploying them. This is an entire business line that can only be undertaken after careful planning.

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Deal of the Month

The Deal of the Month comes from one of our current/former competitors. We were approached by another hard money lender in our space to complete several loans that his firm could not fund. Our competitor foreclosed on one of his borrowers, and used our funding to acquire and complete his project. We gave him a loan on the property and we are paying the contractors directly to ensure that the work is executed completely.

February Deals

4707 Melwood Road

8427 Allentown Road

6402 Osborn Road

1330 Sycamore Avenue

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