

Letter From the Editor

March was a good month. We did eight loans for a volume of \$2.386M. Seven loans were first trusts, and one was second trust. We closed four loans in Maryland, three in Virginia, and one loan in Washington, DC. April will be another good month.

We also have a very robust loan paybacks. Our borrowers are doing really well executing their fix and flips on a timely basis. This is due to the good market conditions.

CHUCKLE'S CORNER

"You can fool all the people some of the time, and some of the people all the time, but you cannot fool all the people all the time." – Abraham Lincoln

Food for Thought

We have launched a weekly podcast called *Basement Tales*. We will have 19 or 20 episodes out by the time you receive this newsletter. It is a podcast on various real estate investing subjects based around stories that have happened to us in the past. Below are links to our podcast.

You can access the podcast on

<https://podcasts.apple.com/us/podcast/basement-tales/id1541056033>

or

https://www.youtube.com/channel/UC0R91IRsAunltHsXN9ygf_Q

IF YOU LISTEN TO THE PODCASTS, PLEASE LEAVE US A REVIEW!

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Five Questions to Ask Your Fix/Flip Contractor

Flipping a house is as simple as find, fund, fix, and flip (the four Fs). As a hard money lender (HML), we are more focused on the fix part of this equation. It is extremely important that you have a contractor that can do the work on budget and in time, and who can observe the local jurisdictional requirements for permit pulling! When looking for a contract, you MUST ask these five questions.

1. Are you licensed?

All contractors will say yes to this question; however, in some cases the answer is "No." Some contractors will piggyback off of their friends' licenses. You have to be very careful here. You need to do a search for license verification on your favorite search engine and check to see what licenses they have. Keep in mind this is jurisdiction specific. In Virginia, contractor licenses consist of two parts: The class of license (A, B, or C), which determines the monetary value of contracts/projects that may be performed, and the classification/specialty, which determines what type of work is allowed. You can simply go and look up the licenses in Virginia by going to <http://www.dpor.virginia.gov/LicenseLookup/>. If they are telling the truth then this could be a good start to a relationship. If not, then I would go on to the next contractor.

2. Do you have references?

It is always a good thing to ask for references. You do not necessarily need to call them, but you should always request them. If a contractor hesitates or does not want to give references, it quickly tells you that they may not be worth doing business with.

One of the things that we ask for are "MLS Able" references. We want to see pictures of properties that have been in the MLS where work was done. This tells us a lot about the contractor. Most importantly, it tells us their experience level. If they are a newer contractor, then we will ask them where they are working currently, show up, and inspect their work.

It is also a wise idea to put the contractor's name in a search engine and see if there is a history of negative reviews for their work. You can also find contractors at home improvement websites, such as Angie's List and Houzz.com, that match homeowners with contractors.

3. Are you insured?

In other words, you want to make sure you are protected from being sued if someone is injured on the job in your home. The proof should be sent to you with the contractor's name or company listed as the insured and the owner—you—as the certificate holder. The contractor will need two different types of insurance: General liability insurance and workman's comp.

4. Can you tell me about the process, including permitting?

It is key to find out what lies ahead in the project, especially if it is a potentially long, expensive, or involved project, to avoid problems down the road. Questions such as: Where will workers park? Where will materials be staged? Where will the dumpster go?

Furthermore, you need to ask questions about whether a permit is required and, if so, what steps will you take to pull permits? Do you, the project owner, need to pull permits, etc.

5. Where is your business located and where are your current projects?

This may seem like a strange question to ask, but it can be especially important. You want a local contractor. You also need to know where the current jobs are so you can make sure workers will be available to focus on your project. You do not want the workers traveling too far for your project. We have had some contractors that would spend the night in the project that they are working on.

There are many more questions that you can ask any contractor to start the vetting process, but these five will help get you started. Remember, the fix part of the four Fs is vital to your success!

Effort and Opportunity

The best question to ask today is, "Do you know what is going on in the real estate market?" As a consequence of COVID, there is a huge upheaval in the real estate market. Maybe you are among the legions of people who have been lulled into an economic stupor by the multitude of government support programs. While it is great to enjoy the benefits provided by the government, this is no time to take it easy. The number one thing you need to do is to start figuring out what the post-COVID real estate environment will look like in your area. Collect knowledge and data and start making calculated decisions about the future direction of real estate.

I am dedicating at least 20% of my time to evaluating trends. Here is a short list of some of the market changes that I'm evaluating:

- Will crypto currencies and blockchain affect the U.S. domestic real estate market anytime soon?
- What is going to happen to areas such as Tyson's Corner and Reston Town Center, where there are massive vacancies in commercial real estate office space and yet new buildings are continuing to be erected?
- How are vacancies in office space impacting retail?
- When the foreclosure and eviction moratoriums lift, how will real estate be affected?
- What will be the impact of a rising interest rate environment on our real estate portfolio over the next five years?
- What are new, repurposed uses for unused retail real estate?
- How are changes in the restaurant and food delivery industry going to affect the prices and uses of real estate, both commercial and residential?

There are a lot of other trends, but these are the ones that I'm looking at today. The list changes all of the time. A lot of the questions and their answers are interdependent. It is like forecasting weather when there are many variables and systems interacting; a precise forecast is not possible. Mainly, for real estate, you need to predict overall trends. This is like knowing if you need a coat for a cool day—you don't need to know the exact temperature, you only need to know if you need to bring a coat.

Let's jump into one of the trends we are seeing in the retail space. Examine restaurants and see how their changes might impact the real estate market. COVID created a wholesale change in how people enjoy their dining experience. Many people are completely comfortable ordering from their favorite restaurant's menu and having it delivered to their home. The consequence of this is the failure of a lot of restaurants that have expensive lease payments for indoor seating space. Smaller restaurants that mainly have kitchen space and take advantage of delivery services are thriving. This is happening so much that shared "ghost kitchens" are being built in repurposed retail space. These ghost kitchens are restaurant brands all sharing the same kitchen space and relying on Yelp and Google to promote their brand. The service delivery is all through third party companies like Uber Eats and Door Dash. So, maybe there will be great deals on retail space coming soon. This also brings better food choices to people who don't live near town centers. Thus, because retail buyers value their proximity to retail centers less now, there is a trend toward bigger residential lots and homes in the suburbs.

This is the best time to put in effort to develop knowledge of your local market. In the long run, that knowledge will pay off as you see opportunities open up.

March Deals



45376 Barefoot Drive



2400 18th street NE



3116 Summit Crossing



1601 Ridge Rd.



1105 John St.



218 North Field Way



12311 Galde Dr.



4508 Evansdale Rd.



8520 Highland Lane