X-its

Property
Wealth System

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OF PROPERTY
INVESTING

X For 'Exits'

I know that 'exits' really starts with an 'e', but we've had to cheat just a little bit on this one... So, what do I mean by exits? Exits are the end result of your property deal and all about how you're going to actually make your money.

So, whether you're going to hold property for long-term income, or you're going to trade it for short-term lumps of cash, these then are your exits and it's absolutely imperative to know your exits before you even get into a property deal. Never buy a property unless you are absolutely sure what you're going to do with it and that you fully understand how that property deal is going to put money in your pocket.

So, if you're trading or flipping a property for example, you need to know how much money you're actually going to spend on that deal and how much profit is going to be left after you've sold it, and if you're buying for income, how much will the property rent for and what would be your monthly income once you've taken account of the monthly mortgage payment, insurance and any other costs involved of holding and renting a property out for the long term (such as agent fees and operating expenses).

Without a real plan, you're just guessing and hoping and crossing your fingers, and this is your sure-fire way to lose money in property.

Now, ideally any property deal that you do should have two exits, not just one. This means that you need to know your plan 'a' and your plan 'b' - just in case plan 'a' doesn't work out how you thought it would.

Let's look at an example, so I can show you what I mean: let's say you're buying a property with the intention to do a flip - that is your first exit to make a profit when selling after you've accounted for all the costs involved of purchasing, renovating and doing the deal. So, you go out and find a nice, distressed property - all the swirly carpets and nice smelly houses (one that has some profit potential and that needs renovation, and you can buy at a discounted price). However, perhaps during that renovation process which might take two to three months, let's say the market actually has a bit of a dip and a bit of a downturn and it looks unlikely that you're actually going to make your desired profit... what would you do in this situation?

The amateur investor will probably have a bit of a panic and they will maybe just try and hold on to that property, crossing their fingers and hoping that the market goes back upwards and then they can sell at some point.

However, the market could keep dropping and by holding onto that property, that investor might end up actually losing quite a lot of money on a deal like that. The professional investor will straight away move to their second exit which has been worked out in advance. This would be refinancing the property at its new enhanced value, after renovation, and then holding property for the long term and renting it out. This refinance gives them their money back out of the deal and then they can hold that property and rent it out for a monthly profit. In order to do this, the professional investor would have worked out all their numbers way ahead of getting into the deal.

Firstly, the potential sale price of the property after renovation: they would have worked out the numbers on all the costs involved in buying and renovating that property, including fees; financing costs; along with the actual renovation itself. They would have then worked out what the expected profit is on trading that property or flipping that property.

However, they won't stop there. They will then look at the second exit, so the professional investor will look at whether if the market does turn, do they need to refinance and go to their second exit, which is holding for the long term and what numbers do I need to know?

So, for example, they're going to need to know what the refinance value of the property post renovation is. Now bear in mind this might be slightly different figure to what the sale price might be.

They're going to have worked out what mortgage they're going to get on the back end of this deal and what the cost of that mortgage is. So, they're going to need to know mortgage rates and they're going to have worked out on an interest-only basis, how much of a mortgage payment they'll be making once they've refinanced.

They will then look at the rental prices in the area for a property like this - what can it rent for? And then they will look at what the other costs involved are, of holding this property as a rental: so, there'll be maybe agent fees or there'll be other costs involved, such as insurance and monthly maintenance.

They will then work out what the net income from the property is, if they had to go to that second exit.

If the numbers don't stack up on either exit 1 or exit 2, then the professional investor is going to walk away from that deal. They're not going to get involved in a deal where they don't have two solid exit strategies. Therefore, having pre-planned exits on any deal, is the difference between a professional investor who makes money, and the amateur investor who loses money.

It's imperative that you always know your numbers, before going into any deal. Never buy a property, without having worked all this out, way before.

As you therefore move into more complex strategies, having multiple exits becomes even more imperative.

Often, I will have three or four exit strategies, on any deal that I go into. As you're doing more complex types of transactions, these exit strategies can involve lots of really creative ideas: such as using option agreements or perhaps assisted sales or title splits.

There are many more to learn, as you progress through your property investing career.