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## Wholesaler Profit Split – a Trap for New Real Estate Investors?

If you are thinking about working with a professional wholesaler who is marketing your property to his buyers list and splitting the profit, you need to be aware of one potential serious issue. It is common place for new investors to be able to find a property and get it under contract, only to not be able to sell it timely and lose the deal.

This potential problem can be solved if the investor diligently builds a buyers list for wholesale deals or settles for having an existing wholesaler show the property to his buyers list. Almost always the split on the net profit in these situations is 50% to the original buyer and 50% to the wholesaler. I am often asked to use my buyers list to promote a property for a flat fee but this is almost never done.

Let's assume that I run a property to my list of 10,000 local buyers for \$1,000. My cost is essentially zero so I could easily clear \$1,000 for literally minutes of work. The next issue is who takes and processes the phone calls? If I have to, then the minutes could turn into a couple of hours, so that's not bad for \$1,000, right? But it doesn't end there because that property becomes a liability to me if the property isn't what it is advertised and there is legal action from a buyer. Can't happen you say? Well, it has happened to other investors, and despite all the disclaimers on your email, anyone can be sued and the cost of successfully defending your position can easily be well in excess of \$1,000. This is called tainting a list and it can be devastating since good discovery by an opposing attorney will require your surrendering your list.

What if the seller is only interested in getting the buyers on your list and he essentially lists a property that is so undervalued that the true players on your list can't resist calling and giving up their info? This is called vacuuming your list and it works very well. Nothing much illegal since you consented to selling your list. If you think that your major buyers (whales as I call them) are going to stick with you while other investors are calling or showing them better deals, you are sorely mistaken. These whales didn't get rich by giving money away, or as they say "a fool is soon parted from his money".

So let's say that as a new investor you get a deal and decide to call a major wholesaler and see what kind of deal you can work. If he says anything more than a 50%/50% split, call more wholesalers until you find one that is more reasonable. The hard part of selling wholesale properties is usually getting the property under contract in the first place, not selling it if it is a deal. If the wholesaler tells you that his buyers remain his and if you do a deal with one, you have to split any future deals with him or even give him a referral fee, go to the next wholesaler.

I believe one hidden trap that hurts many new investors is determining the sales price, which the wholesaler will do with you or maybe "to you" if you aren't careful. You already have some idea of after repaired value ("ARV") since you needed that to make

an offer to the original seller. You should be making a \$5,000 to \$20,000 spread on each deal, not a measly \$1,500 to \$2,500 because too much is being left on the table, and often the wholesaler is the buyer so you are actually an investor being paid at bird dog rates. A "Bird Dog" is anyone who refers a deal to investors – you see the investor's business card reading "\$500 referral fee to anyone bringing me a property...."

A good guideline for closing is; if the profit is \$20,000 or more, do a double closing. If the profit is less than \$20,000, assign your contract. This is to make sure your seller doesn't get seller's remorse and your buyer balks because you are making too much on the deal. Even whale buyers will sometimes grump and groan that you made too much. One time a whale told me I should be making \$2,000 to \$3,000 a deal when he found out I had made \$20,000 on a property I sold him. I almost lost him as a buyer because he was very upset that I had taken advantage of him!

Once you have picked the wholesaler you trust, get a signed Partnership Agreement as quickly as possible. This should state the terms of what to expect and the percentage of the net profit to you and him. This is not the end of the process even when the property is sold and set for the closing. What I frequently see is that the wholesaler sticks to the terms of the agreement as far as the "net" profit is concerned but he slips in another party to the transactions, or in a recent case, two additional payees. His claim is that they brought the buyer in through their email list. There was a \$10,000 profit that should have been split equally, but instead was much less.

The math was simple for the wholesaler; the net profit of \$10,000 minus the other "invisible" partners who brought their buyer of \$4,000 (\$2,000 to each one) leaves \$6,000 net, so the new investor's check was \$3,000. When I saw the closing statement in this case I was upset because I had heard this wholesaler had done it to other new investors before and I had assumed it was a rarity instead of a fact of his doing business. I can't even be sure these invisible partners were anything but his office help!

In summary, if you are going to be wholesaling properties for quick cash, do not depend on other people's buyers list. Make your own list as quickly, and persistently, as you can so some time in the near future you too can be marketing properties to your list that other investors have brought to you.

To your limitless success,

Dave Dinkel