

Residential “Rehab” Projects

Objective

Purchase residential properties at auction; refurbish, then list and sell for short term profit.
Purchase properties in Riverside County with “post refurbish” resale values approximately between \$300,000 and \$400,000.

Project Outline

Three (3) Phases to the project – (Duration; approximately 120 days beginning to end)

1. **Auction**
2. **Refurbishment**
3. **List for Sale & Close**

Fees:

1. **Listing commission:** 6% of refurbished sales contract.
2. **Project Service Fee:** 3% of post-refurbishment property market value (\$3,500 retainer portion disbursed upon execution of this contract) **Full Credit** available with conditional terms met, see terms on page 7.
3. **Project Management Fee:** \$500/week during refurbishment phase (maximum 4 weeks, based on work time estimate, not elapsed calendar time; estimate made prior to start of phase)
4. **20% Share of Final Project Net ROI** (Conditional on project producing a minimum 12% annualized ROI)

Phase 1: AUCTION

- A. Windem Real Estate and Ken Garcia BRE License 01234824 partner with investor to first purchase appropriate properties at, using cashier’s checks made Payable to: “Investor Name”. A limited power of attorney (**LPOA**) document is used by Ken at the auction to endorse the check over to the trustee handling the property being purchased. This is necessary since we don’t know who it will be until we secure the property at the auction. ([Sample LPOA page 11](#)) Ken will be issued a Trustee Certificate of Sale Receipt at the auction.
- B. Once we receive the Trustee Deed of Sale approximately a week later, Ken records the property at the county in the investor’s name; Investor receives certified copy of the deed.
- C. Any excess funds used in the purchase are refunded to the investor directly.

Phase 2: REFURBISHMENT

- A. Ken handles the eviction process if applicable.
- B. Investor funds the expenses estimate
- C. Ken manages the refurbishment process and pays bills as needed

Phase 3: LIST for SALE & CLOSE

- A. Property is listed by Windem Real Estate - (Ken Garcia listing Agent)
- B. Offers are reviewed and Investor chooses offer to accept.
- C. Escrow is opened as usual then closes, and funds are distributed to all parties.

Figure 1: Example Transaction: Post refurbished value of \$300,000

Item	Value
Re-Sale Contract Price	300,000.00
Auction Purchase Price	230,000.00
Gross Margin	70,000.00
Project Management Fee: Ken Garcia	1,500.00
Refurbishment Costs	15,000.00
Sales Commissions (includes \$3,500 retainer)	18,000.00
Closing Costs (1.25%)	3,750.00
Total Expenses	38,250.00
Net ROI (70,000 - 38,250)	31,750.00
Net ROI Percentage $(31,750 \div (230,000 + 38,250))$	11.84%
Project Duration (Days)	120
Daily ROI Percentage	0.09863312%
Annualized ROI Percentage	36.00%
Distribution: Seller/Investor 80%	25,400.00
Distribution: Windem Real Estate 20%	6,350.00

Historical Transaction Example 1

26457 Thoroughbred Lane Moreno Valley, CA 92555 (Closed 01/31/17)



Item	Value
Re-Sale Contract Price	299,000.00
Auction Purchase Price	237,500.00
Gross Margin	61,500.00
Project Management Fee	-
Refurbishment Costs	17,688.00
Real Estate Commissions	16,445.00
Closing Costs	8,577.21
Total Expenses	42,710.21
Net ROI	18,789.79
Net ROI Percentage	6.71%
Project Duration (days)	226
Daily ROI Percentage	0.00029671
Annualized ROI Percentage	10.83%

Historical Transaction Example 2

83870 Yosemite Dr. Indio, CA 92203 (Closed 04/28/17)



Item	Value
Re-Sale Contract Price	310,000.00
Auction Purchase Price	240,000.00
Gross Margin	70,000.00
Project Management Fee (3weeks)	1,500.00
Refurbishment Costs	10,560.00
Real Estate Commissions	18,600.00
Closing Costs	9,608.87
Total Expenses	40,268.87
Net ROI	29,731.13
Net ROI Percentage	10.61%
Project Duration (days)	87
Daily ROI Percentage	0.00121932
Annualized ROI Percentage	44.51%

Historical Transaction Example 3

34264 Chaparossa, CA 92532 (Closed 06/01/17)



Item	Value
Re-Sale Contract Price	393,000.00
Auction Purchase Price	308,800.00
Gross Margin	84,200.00
Project Management Fee (3weeks)	500.00
Refurbishment Costs	13,665.40
Real Estate Commissions	21,615.00
Closing Costs	3,905.66
Total Expenses	39,686.06
Net ROI	44,513.94
Net ROI Percentage	12.77%
Project Duration (days)	107
Daily ROI Percentage	0.00119379
Annualized ROI Percentage	43.57%



Project Manager

Ken Garcia
Anaheim Hills, CA

Ken has been a licensed real estate agent in California since 1998. His professional activities began with a career in mortgage lending originating loans. Through a relationship developed with the owner of that company, Ken started a partnership using their combined resources to start buying fixer upper properties to refurbish and resell for short term profits. After 3 years of learning the business, rehabbing several properties, and making good profits, Ken decided to go full time into the business on his own. At that time during 2010, he became an agent with Windem Real Estate. Since that time, he has handled the refurbishment of dozens of properties working with his own money and 3-6 private investors. Ken accomplishes this with the help of two other key construction experts; one a jack of all trades who can do anything from high end granite work to simple handyman tasks, and another painter/handyman that Ken trusts and has worked with for years. Ken is married and has a teenage daughter.

Property Selection Process

Ken uses a Trustee sale source to identify properties going to auction primarily in Riverside County. He has identified preferred areas to buy in and avoids rough areas that could affect resale values. He develops knowledge of the communities, whether they are gated or have home owner associations and then sifts and sorts the information to determine which properties will be available on any given day at the Corona City Court house lawn at 505 S. Buena Vista Corona, CA 92882.

He selects properties generally that are built no earlier than 2000. There are some exceptions however, over nearly 90% of the properties he has flipped have been less than 13 years old. Once a property is identified, he sends the information to Title for a preliminary title search to reveal the tax records, and any liens that must be paid, however there typically are few since the sale will clear off most everything.

He next does a comparative market analysis on the property to get an estimated **FMV** (Fair Market Value). He looks at closed sales, Active Sales, pending sales and even old listings that contain pictures of the interior to help in the assessment. He also looks at whether the property is vacant or occupied. Occupied properties have added risk of eviction time and costs being included, but are many times just part of the plan.

Once he knows the **FMV**, he deducts estimated real estate commissions of 6%, Escrow/Title fees 1.25%, refurbishment costs based on age and improvements estimated at 10% along with taxes and recording fees plus the desired net margin of for example \$30,000 which then gives him his preferred bid price. This price is not absolute, but a guide. Depending on the area and desirability of the property he may bid beyond this price.

Priority of Investor Purchases and Timing of Funds Released

During phase 1, Ken works with no more than 2 investor's money at a time. Priority is assigned on a first come first serve basis as funds are made available. The process is really handled in a two (2) step fashion. First, all parties sign the letter of intent, and secondly when the next investor purchase slot comes up, investors are notified to produce cashier's checks for use at the auction. Funds are held by Ken in the form of cashier's checks until the purchase is completed. This can take 2-4 weeks, or as fast as a couple of days.

Terms & Conditions

- **Investor** shall fund the project with the maximum amount they wish to spend on the property purchase at auction. If investor chooses to use holding escrow services, then a 12% pad is required.
- **If the project** goes over and investor can't fund the short fall for any reason, Windem Real Estate and or Ken Garcia have the option to provide the needed funds to complete the project and said funds will be credited back to Windem Real Estate and or Ken Garcia at close of escrow. Any unforeseen expense that arises that exceeds 2% will require agreement between the parties as to how the shortfall is handled.
- **The expertise** of finding, securing and refurbishing properties is valued at 3% of the post refurbished market value of the property. (Based on the example transaction listed above (*figure 1*), the Project Service Fee would be \$9,000). This is separate from the Project Management Fee of \$500/week. If investor lists the property with Windem Real Estate as recommended, the 3% fee will be waived and all retainer fees paid will be deducted from the listing side commission due at close of escrow.
- **Properties purchased** must be refurbished and brought up to current market resale standards. After the property has been refurbished, Investor may decide to keep the property as a rental for long term profit. If investor decides to do so, compensation to Windem Real Estate is due and payable at close of escrow based on a current market appraisal ordered and paid for by the investor.
- **Investors** will receive an estimated ROI worksheet as soon as we gain possession of the property. They also will receive a final ROI worksheet requiring all party's signatures prior to close of escrow. This gives escrow instructions to adjust the Sellers final closing statement and credit Windem Real Estate for their profit sharing of 20% of Net ROI if applicable.

- **If the investor** wishes to keep the property as a rental, Windem Real Estate can list and obtain tenants for the investor for a 5% listing agreement.
- **Everyone agrees** to act in good faith and all parties understand that there are no guarantees and that each transaction is unique and carries its own degree of risk.
- **Binding Effect:** This Agreement is binding upon the parties and their respective successors and assigns.
- **Governing Law and Jurisdiction:** This Agreement shall be governed and construed in accordance with the laws of the State of California. Any litigation to enforce or interpret the provisions of this Agreement or the parties' rights or obligations arising out of this Agreement or the performance hereunder shall be maintained only in the courts of Orange County, California and the parties expressly consent to personal jurisdiction to such courts.
- **Severability:** If any provision of this Agreement shall be held by a court of competent jurisdiction be contrary to law, all remaining provisions of this Agreement shall remain in full force and effect.
- **Right to Counsel:** The Investor represents and acknowledges that before signing this Agreement, the Investor had the opportunity to seek legal counsel for advice on the terms and conditions of this Agreement.
- **Arbitration:** All disputes and claims between parties arising from or connected in any way with this agreement which cannot be adjusted between the parties involved, shall first be submitted to arbitration.

Glossary of Terms

- **Refurbishment:** To make over and fix up or remodel.
- **LPOA:** Limited Power of Attorney; power of attorney for a specific limited function
- **Resale Contract Price:** The Sales price of the property after refurbishment.
- **Auction Purchase Price:** The amount originally paid to purchase the property at the auction.
- **Gross Margin:** The difference between the resale contract price and the auction purchase price.
- **Net ROI:** Actual dollars returned on investment after all expenses.
- **Net ROI Percentage:** Net ROI divided by total investment.
- **Project Duration:** Time from beginning to end of the project. Investor funds release date through resale escrow close date.
- **COE:** Close of escrow

Letter of Intent

I wish to engage in the above outlined property rehab project.

Approximate Property purchase investment Amount: \$ _____

(Plan on 12% more for project costs)

INVESTOR NEXT STEPS upon execution of this agreement and letter of intent:

- (1) Get your LPOA signed and notarized (We will email your actual LPOA draft to use)
Please email back to Windem Real Estate at support@windem.com
- (2) Communicate directly with Ken Garcia, he will call you when he is ready to go to auction on your behalf. Ken will instruct you on how many cashier's checks he wants your investment broken down into and in what amounts.
- (3) Make the checks payable to **Your Investor Name**
- (4) Ken will arrange a meeting with you to pick up the checks and go over any final questions.
- (5) You will be emailed the **Trustee Certificate of Sale Receipt** from the auction once the property is purchased
- (6) Notify ken when you receive the **Trustee Deed of Sale** (7-10 days after the auction sale)
He needs the original to record the transfer with the county. Ken will pick up the Deed of Sale from you personally.
- (7) Ken will handle weekly bills primarily out of investment funds provided after possession of the property is achieved. Some bills will be paid directly by you as well, Ken will keep you informed.
- (8) When phase 3 begins and a purchase offer is accepted from the resale buyer, Serenity Escrow will handle the escrow through close and completion of the entire project. (or any other escrow of Windem Real Estate's choice)

Serenity Escrow

Butch Hewitt

30250 Rancho Viejo Rd. Suite B

San Juan Capistrano, CA 92675

(949) 354-5544

butch@serenityescrow.com

www.serenityescrow.com



Letter of Intent Signature Page

Investor Name: _____ Signature _____ Date _____

Mailing Address: _____

Email _____



Hard copies of this document are for **review purposes only**. You will not be signing this copy. The fully executed document will be processed through email with electronic signatures using DocuSign.

WRE Representative: **Arne Valum** Signature _____ Date _____

Project Manager: **Ken Garcia** Signature _____ Date _____

WRE Referring Agent: **Agent Name** Signature _____ Date _____

(Must have participation agreement in effect)



780 Roosevelt Irvine, CA 92620

(800) 761-0045 | California Bureau of Real Estate License: 01476658

Power of Attorney to Purchase Real Estate

I, *Investor Name, Title & Entity*, with a principal place of business at *Investor Address*, do hereby appoint Kenneth Garcia of 6524 E. Camino Vista #4 Anaheim Hills, CA 92807, as my attorney-in-fact to act in my name and place solely for the purchase of real-estate that is offered during Trustee auction sales and that is for, and on behalf of, *Investor Entity*. This power extends to taking all actions which I would take if personally present including, but not limited to, the execution of any contracts, deeds, taxes, bill of sale, notices, certificates, the signing of cashier's checks made out to *Investor Name or Entity*, and to sign other documents as necessary for the purchase of such Trustee auction sale properties.

The rights, powers, and authority of my attorney-in-fact to exercise any of all the rights and powers herein granted shall commence and be in full force and effect upon the execution of this document and shall remain in full force and effect until rescinded by either party.

Dated: *Day, Month, Date, Year*

By: _____

STATE OF CALIFORNIA, COUNTY OF _____

NOTARY ACKNOWLEDGEMENT

STATE OF CALIFORNIA, COUNTY OF _____

On _____ before me, *Investor Name*, personally appeared *Investor Name*, who proved to me based on satisfactory evidence to be the person whose name is subscribed to within this instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____