Rehab Post Game Analysis

Preview Of What You Will Learn

Sections:

Introduction

Now that you've sold your property, it's time to take a step back and analyze the deal. At the end of each real estate transaction, it's important to meticulously analyze your deal and figure out what you did right and what you did wrong. How did your projected profit compare to your actual profit? What seemed to work for you, and what was a disaster? Successful investors never make the same mistake twice.

To be excellent or exceptional at any discipline, you have to consistently work towards mastering your craft. The great inspirational speaker Tony Robbins teaches a concept called "CANI," which stands for Constant And Never-ending Improvement. In this business, we practice CANI by doing our very best to seek out what we can change and improve. We avoid doing the same thing over and over again and getting comfortable.

By stopping to sharpen our skillset, we review where we are, where we are going, what we're doing, and what we're working towards. Working without reviewing, without establishing our grounds will mean that we can never truly know if we are heading in the right direction.

It is important that we all take the time to justify our efforts and learn from our mistakes.

Success on this level is normally the result of learned and modified behavior based on metrics.

Post-Rehab Metrics

At the end of each rehab, you should have a lot of numbers crunched, a lot of papers signed, and hopefully a big fat paycheck. You took a lot of time to analyze your deal before you purchased the property, but what about when it's all done? While we don't want you to hone in too much on the numbers post-rehab, it is important to realize your successes from your failures so that you can learn and prosper.

Why Metrics Matter

It may seem like those who truly succeed have a natural born talent or are some unparalleled genius, but this is rarely the case. Success on this level is normally the result of learned and modified behavior based on metrics. While it may appear that real estate moguls and business leaders achieve overnight success on a regular basis, it's rarely the case. What the public is made aware of is typically just the tip of the iceberg. More frequently, these apparent overnight successes are directly attributed to many years of trial and error.

We're often taught the power of analyzing metrics. Metrics can be anything from the cost you have per lead to the amount of "likes" you have on your Facebook page. Identifying metrics associated with proven success is great in theory, however you must retain focus on the ultimate goal. For most real estate companies it is not deal volume or gross revenues, but net income after taxes. Metrics have the ability to provide a solid foundation for any business if they are accounted for correctly.

Focusing on the End Goal

While these metrics are easier than ever to track, they can also become a major distraction for investors. The sheer volume of available metrics provides a labyrinth of information that is easy to get lost in. Don't overwhelm yourself too much. Try to take a bird's eye view of the situation so that you can understand the real problems. Improving the wrong metrics can be incredibly counter-productive. Familiarize yourself with the real estate metrics that matter most.

Get Your Team On Board!

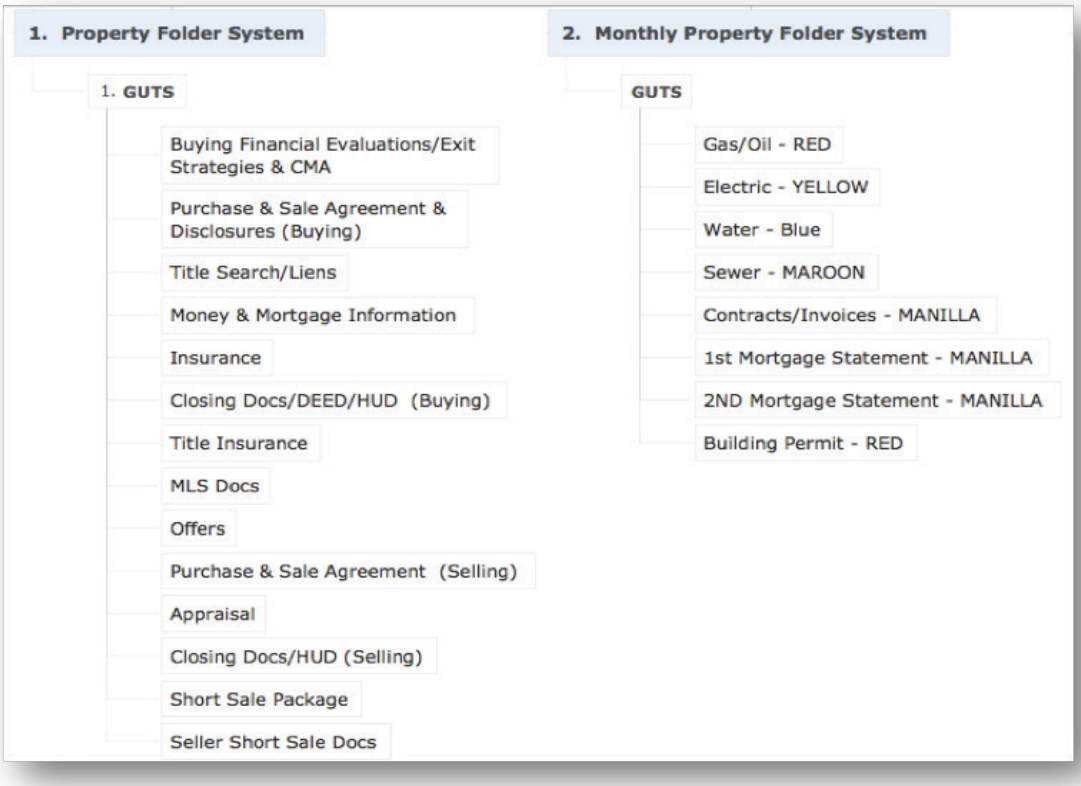
- Remember that while systems are vital to your success, they won't be as effective without proper rules. Rules are not hard to set; they're hard to follow. That's why every team member you have and every employee you hire needs to buy in towards the goals you're working on and the rules you've set. If they don't, you're going to have a hard time getting anyone to rally around and be productive.

Establishing Your Filing System

In order to have a proper post-game analysis, you must have an effective means to organize all of your information. No matter how much you attempt to do online and how hard you try to operate a paperless business, dealing with paperwork of some kind will be inevitable and you'll need to stay on top of it. Regardless of whether or not you use a paper filing system or operate electronically, it's important that you develop a well-oiled machine. The way in which you file and organize your documents will allow you to be effective and productive. That's what puts investors in the best position to win. Don't forget, you not only want to set up this system, but maintain it. Keeping it organized means that everyone on your team can easily follow it and look something up if needed.

Property Folders

Within your system, you should have two separate folders for each property: a ***Monthly Invoice Folder*** and a ***Master Property Folder.*** Within the monthly invoice folder, you'll have separate subfolders that will include invoices and receipts for gas/oil, electric, water, sewer, first mortgage, second mortgage, contracts and invoices, and building permits, as outlined below.



Your Buying and Selling Folders

The master property folder will include two separate sub-folders – one labeled for **Buying** and one for **Selling**. If you want, you can color code the folders by property type – wholesale, renovation, buy and hold, etc. It is important to categorize your properties as much as possible so that when the time comes to look up something, you can quickly and easily do so. However you choose to organize your folders, make certain that they are accurately labeled and include everything necessary.

Included in the Buying folder should be these items:

- Buying System Checklist
- Buying Financial/Comps and Exit
- Purchase and Sale (Buying)
- Title Search

- Land Trust
- Mortgage Info
- Insurance
- Closing Statement/HUD-1 (Buying)
- Deed
- Title Insurance
- Short Sale Package

Included in the Selling folder should be these items:

- Disclosures/Listing Agreement
- Offers
- Purchase & Sale (Selling)
- Appraisal
- Closing Statement/HUD-1 (Selling)
- Seller Carry Back Mortgage Note
- Selling System Checklist

By using this system, managing and organizing expenses becomes simple and effective. Generally, when you need to find something you can find it, when you need to cross-reference items you can do it, and when a team member needs property information, they can track it down no problem. It just works.

Filing Away Completed Deals

You will also need a folder for closing your deals. These will contain all of the necessary documentation for completing and closing current deals. Once the deal is closed, you can move the lead and closing folders to an **Owned Properties Folder**. Your owned properties folders will be for each property and include several folders for property-specific information.

Once you sell a property, you should keep its files in your active filing system for six months. After that time, you can scan the documents for electronic storage and archive the paper files. A closeout folder will be necessary if you are faced with a lawsuit, or perhaps even title issues down the road. It is recommended that you keep record of your property for a total of 5-7 years.

Post-Rehab Accounting

You won't find many real estate investors chomping at the bit when it comes time to do bookkeeping and accounting. But even if it is not your cup of tea, you need to be aware of every check that comes in and every check that goes out. Too many investors end up with tunnel vision, looking only at purchase price, sale price, and rehab costs of their properties. Many investors ignore the small dollar amount transactions such as utilities, financing charges, closing costs and other holding costs. Ask them how much profit they made on a rehab deal, and they can't give you a real answer.

There is absolutely no reason that you shouldn't know every single dollar spent or made on a deal. As an investor, the last thing you want to happen is to walk away from the closing table thinking that you made $50,000 when you really only made $30,000. You'll only be left confused and not knowing if you're running your business right, and worse, if you're even making a profit. As a residential redeveloper, the success of your business depends greatly on the profit of each deal, so you've got to track each transaction down to the very penny.

Understand the Basics

Before you start using accounting software like QuickBooks, you'll need to understand the basics. The basic function of an accounting system is nothing more than organizing financial information and providing accurate reports to track your money. Keep in mind that while you don't have to be an expert, it's important that you become familiar with the accounting principles and procedures. By having a working knowledge of accounting before you hand it off to a bookkeeper, you are able to do your own checks and balances as well.

Using QuickBooks

Your rehabbing business accounting for the most part can be very simply executed with QuickBooks management. QuickBooks Pro or QuickBooks online is an easy to use accounting program designed to help small to medium sized businesses know exactly where they stand financially and how to be more effective. It keeps track of customer and vendor information via checks, keeps detailed information for each and every bank account in the business, and allows you to run reports. It also keeps track of any inventory you have (as a residential redeveloper, our inventory is the properties we buy and sell).

The bottom line is: in order to keep an accurate account of your funds and where your company stands financially, you'll need to have a bookkeeping and accounting system that is set up for the long haul and will sustain growth. Keep in mind that there are many different kinds of accounting software available, but we recommend QuickBooks. Our bookkeeping and accounting procedures within QuickBooks for rehabbing properties is very straightforward. It may seem scary if you're not accustomed to working with accounting or don't know basic principles, but it's not as hard as it seems.

1. Set up your Chart of Accounts

Setting up your Chart of Accounts in QuickBooks is the initial step to optimizing your bookkeeping system. The Chart of Accounts is just a listing of all the accounts you are tracking – cash, inventory, loans, revenues and expenses. This is the basis for all of the accounting entries in QuickBooks. Unfortunately, this initial step is often ignored, and therefore your bookkeeping system can crumble very quickly. Within QuickBooks, there are templates for the Chart of Accounts, or you can create one from scratch.

Helpful Tip!

To make the accounting process easier, use account numbers for each item on the Chart of Accounts. This is an option you can turn on in the QuickBooks set up.

2. Input Information

Once you are using QuickBooks or other software to enter all of your transactions, you will have put into the system the necessary information for it to generate the next two elements for understanding the finances of your business. These are the Income Statement and Balance Sheet.

- The ***Income Statement***, or Profit and Loss statement (P&L), summarizes your company's revenues and expenses over a period of time. This will let you know if your company is truly making or losing money. So many real estate investors are unable to answer that question on a week to week, month to month, or even a quarterly basis. By having a P&L with proper reporting, you will be able to answer. This system will track the profitability of the products you are selling by showing the revenues and costs associated with the product (the house).

- The ***Balance Sheet*** gives you a picture of the financial health of the business at one point in time. It shows your assets (cash, inventory, properties, deposits), your liabilities (mortgage loans on properties, accounts payable, etc.) and your equity (cumulative net income or loss for all time as well as any personal contributions to the business).

As you purchase properties, spend money to rehab, sell properties and you enter each of the transactions in QuickBooks, you will be tracking the information necessary for the program to create these financial reports for you.

Your bookkeeping departments should track three major areas for each property: the ***Purchase, Rehab*** & ***Carrying Costs***, and the ***Sale.*** Let's go into a little detail on each:

Purchase Costs

The costs regarding the purchase of a property will vary. These costs include the amount we purchase the property for and the closing costs associated with that transaction. These costs are all capitalized and put in our "Asset Account" within our accounting system. You would set up an asset account (we used fixed asset for this purpose) in your Chart of Accounts with the property address. You would also set up a liability or loan account in the Chart of Accounts with the property address. Any borrowed funds (whether new loan or assumed mortgage) will be recorded as a liability.

Rehab and Carrying Costs

Rehab costs are all costs associated with both materials and labor during the rehab. Rehab costs are essentially anything that you spend to renovate a property that will stay with the property. When money is spent, it is recorded in the asset account you set up when the property was purchased. The rehab funds increase the total value of the asset account.

Holding costs are those costs that are incurred to hold the property. These include any mortgage or loan payments for the property, property taxes, insurance premiums, utility payments (water, electricity, gas, garbage, etc.), lawn care (once the rehab is complete), etc.

Much like the purchase, these holding costs are going to be recorded (capitalized) in the asset account as well. Costs can include:

- Utilities
- Inspections
- Advertising
- Landscaping
- Debt Service

Helpful Tip!

Remember that all invoices For Rehab & Carrying Costs are Filed in the Monthly Property Folder.

Selling Costs

Selling costs are all the costs accrued in order to get the property sold. This includes commissions, any closing costs that you might pay on behalf of the buyer, selling closing costs, any mortgage or loan payoffs, etc. This category also includes items required by the buyer as part of the purchase contract. For example, if the buyer requires that a fence be placed around the property in order to close, then that should be included as part of the selling costs. However, if the buyer requires a specific repair that should have in fact been made as a part of the rehab process, you may want to include it in the rehab costs.

The sale is when we enter a journal entry to write off the total balances in the asset and liability accounts to record cost of sales and record the proceeds received as revenue. This entry allows the program to calculate your gain or loss, which is shown on the income statement.

There are many costs incurred when selling, and they can include:

- Title
- Attorney/Escrow Fees
- Conveyance Taxes
- Real Estate Commissions
- Misc. Expenses
    - Expense amounts should be taken off the HUD-1/closing statement

The Final Closeout Stage

It's important that a bookkeeper uses this system to provide you with a financial closeout package for every property once it is sold. This will help you in completing your post-game analysis. Using a checklist will help you see what worked and what didn't, how much money you made, how many days you owned the property, how much was paid in utility bills, and much more. Here's an example Financial Closeout Sheet below:

PROPERTY SALE ENTRIES
Financial Close out Sheet for Sale of Property

3656 Leland St

Date:

x	1	Profit Analysis	
11/19/2013	2	Buying Hud	
4/22/2014	3	Selling Hud	
x	4	Copy of Check from Sale	
x	5	Quick Report	
x	6	Journal Entry	
x	7	Class Income Statement/P&L Statement	

1 **Acquisition Analysis**	Actual	Pre-Project Analysis	2014 Average
Holding time in days	154		146.87
Profit	55,838.52	61,743.00	17,282.64
Improvement Cost	78,170.61	75,000.00	76,283.79
Utilities Cost	414.20		448.83
Insurance	1,215.00		1,136.14
Financing Cost	37,686.12		23,108.70
Staging Costs	3,605.00		2,217.58
Marketing Costs	191.28		412.01

2 **Rehab Analysis**	
Rehab Start Date	11/26/2013
Days from close date to start date	7.00
# of days in rehab	84.00
Improvement savings (overage)	(3,170.61)

3 **Sales Analysis**	
List Date	2/18/2014
List Price	$749k - $799k
Offer Acceptance Date	3/20/2014
# of days from listing to contract	30.00
Offer Acceptance Price	775,000.00
Days in Escrow	33.00

Profit Analysis

The first piece of the puzzle is the profit analysis. This is a summary sheet created in Microsoft Excel detailing the financial aspects of the deal. Included in the analysis are a summary profit and loss statement including the original cost, cost of improvements, the carrying costs (utilities, insurance and debt service), the selling price and closing costs and the calculation of gain or loss. Also included is the number of days the property was held, number of days it was listed for sale and any other information that will help understand the deal.

Closeout Checklist

When you sell a property, you will want to move the property folder over under a file labeled "Closed Properties." This property closeout checklist should be used after each project is completed to ensure that you have all of the necessary information documented and filed properly:

- ***Copy of Buying HUD-1 Statement*** – This is the closing statement we receive for the property when we purchase it.
- ***Copy of Selling HUD-1 Statement –*** This is the closing statement provided at the closing when we go to resell the property.
- ***Copy of Check or Wire from Sale*** – Having a copy of the check or wire confirmation makes it easy to trace the funds back to our bank account. It also allows us to confirm the correct amount when preparing an entry in QuickBooks.
- ***Quick Report from QuickBooks*** – This report shows every single transaction that was incurred from the time the property was purchased to the time the sale is recorded. The report assists the bookkeeper in making the correct entries in QuickBooks, and to remove the property from the books and record the gain or loss. We also need this report so we can quickly review all invoices and other payments that were included as costs of the project.
- ***Journal Entry from QuickBooks*** – The journal entry made by the bookkeeper is how the property is taken off of the books and the sales proceeds and gain or loss gets recorded on the financial statements.
- ***Class Income Statement/Profit & Loss Statement*** – The class (property) income statement is the final QuickBooks statement that summarizes the deal. The net gain or loss on this statement should be the same as shown on the Profit Analysis explained previously. When these two statements agree, we will be able to determine that the bookkeeper captured the correct information in QuickBooks.

HelpFul Tip!

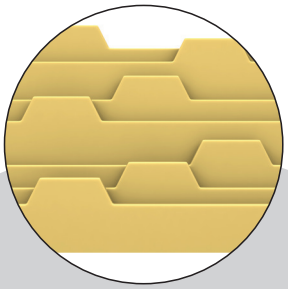
Once you have the checklist and steps prepared, you are able to outsource this task to somebody else.

Wrap Up

#1

Create Your Filing System

You must have an organized and thorough system in place in order to properly track your metrics and understand your success and failures.



REHAB POST-GAME ANALYSIS

#3

Analyze the Numbers

Once you have all of your ducks in a row, it's time to reflect back on the deal and check out your progress. Every mistake is a lesson learned.

#2

Establish Your Post-Rehab Accounting

Having a bookkeeper and QuickBooks will make your life a lot easier when it comes to accounting.

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