10 step guide

to real estate investing in the post-covid economy

colin reports

JUNE 2020

Greetings!

My name is Colin G Murphy and I´d like to thank you for downloading this free report.

For those of you who don´t know me, I am a full time investor based in Tampa Florida who has bought and sold more than $100 million worth of real estate in the US and UK markets, including 350+ fix and flips in the Tampa Bay Area between 2015-2020.

I have experience in a wide variety of real estate related activities, including buy & hold, fix and flip, wholesaling, tax liens, tax deeds, foreclosure auctions, note investing and private lending.

In addition to investing full time, I enjoy podcasting, networking with fellow professionals and generally creating useful content for those who want to achieve financial freedom before they get too old to enjoy it.

About this report

I´ve written this report for people who love real estate. That includes landlords, wholesalers, rehabbers, lenders, property managers and realtors and more. Whether you are a seasoned pro or a rookie starting out, hopefully you can pick up something useful in this document to further your real estate investing.

What will be the long term impacts of massive unemployment followed by massive stimulus and rescue packages from the government and the federal reserve? How is all that going to affect the housing market in the short, medium and long term?

I´m not naive enough to pretend I have all the answers. All I can do is highlight some of the major trends I´m seeing and outline some common sense steps you can take to safely navigate the choppy waters ahead.

What we do know is that **every economic crisis is intrinsically Darwinian, producing winners and losers while shifting the natural balance of power.** What position in the food chain do you want to be in when all the dust has settled? It is the decisions you take now and in the coming months that are going to determine that.

Without further ado, here is my 10 step guide to real estate investing in the post Covid economy.

Colin G. Murphy

contents

STEP 1

Make sure your house is in order and **increase your reserves and liquidity.**

When I say “get your house in order” I don´t literally mean clean the guest room and declutter the garage (although that would probably be therapeutic). What I mean is make sure your household finances are on a solid footing before you start investing in additional properties.

The two big questions to ask yourself include:

1. Have you been tracking monthly income and expenditure on a household spreadsheet? If not, then it is time to get started. Whether you earn $30k per year or $300k per year, **tracking your own income and expenses is fundamental in order to maximise your investing potential.**
2. Do you have reserves in a “do not touch” savings account that would cover all of your household and personal costs for at least six months? That includes your primary mortgage, car payments, groceries, utility bills, school fees, netflix account etc. Once you have the information from your monthly income and expenditures, finding out your six month number is very straightforward.

Landlords & Fix n Flippers

More experienced investors who have multiple deals under their belts most likely got their personal household expenses under control a long time ago. If that includes you, then now is the time to review the reserves and liquidity of your rental properties and if applicable, the fix and flip or wholesale deals in your pipelines.

For all rentals, I would again make sure that you have the equivalent reserves of at least six months in a “do not touch” account that you could dip into in the event the tenants leave, stop paying rent or something expensive needs to be replaced.

For the wholesalers and fix and flippers out there, things are slightly different. **During a boom, it is often tempting to stretch things to get more deals done.** I´ve definitely been guilty of it. You let your cash reserves run low, you increase your loans, you get more aggressive on your offers, you make rosy assumptions about how long it will take to sell a house, and a lot of the time you get away with it and make more money than you would have done being conservative.

Nowadays, while there is certainly no reason not to keep doing business and keep making money, it would be prudent to

- Boost your cash reserves
- Lower your LTV ratios
- Be more conservative on your hold periods and profit margins.

STEP 2

Brush up on your **digital skills.**

If you are trying to sell a home, there is a lot of technology out there to make it easier and safer for people to make buying decisions.

One of the best business decisions I ever took was deciding to pay a professional photographer to take pictures of every single home we renovated.

In the early days, either my business partner or I would visit every house post renovation with a camera, spend an hour at the property and another hour back in the office uploading and editing them.

Despite our best efforts, they still looked very poor compared to what a professional was able to do. Not only did we save 2-3 hours of valuable time per house (and we were going through 8-9 homes per month), they actually sold quicker with the professional photos!

Those high quality photos cost about $120 per home, which was pocket change when compared the renovation budget, the sales price or even a realtors commission. We later added drone images for additional “wow” factor.

More recently, I have included Matterport 360 degree tours, which enable people to literally walk around a house virtually. It was another big leap forward and gave our buyers huge peace of mind. Those cost an extra $125 per home and were well worth it.

You don´t actually have to be technology savvy to embrace any of these tools - just pay the experts to give you the photos and links and then share with prospective buyers.

Also, if you are a landlord, having professional photos of the home when it is looking “its best” are very useful for re-letting it during future turns.

STEP 3

If you have **tenants who are not paying their rent,** get in front of it.

Like most landlords out there, I was pretty worried at the start of April 2020 and the start of May 2020 when a lot of people were predicting waves of tenant defaults. It just didn´t happen - rents were ultra steady in the properties I own across in three states and the property managers who look after them did a stellar job.

Nonetheless, other people weren´t so lucky and things might change. If they do, you need to get in front of it. Here are some quick tips.

- Get your insurance policies up to date and try to secure some rental income protection.
- Make sure there are open communication lines between you and your manager and the manager and your tenant.
- Make sure your tenants understand very clearly the consequences of not paying rent (and not talking to you about it).
- If tenants are in genuine distress (illness, job loss) and you have proof, then be compassionate, practical and negotiate terms with them.
- **Do everything you reasonably can to avoid losing tenants who had previously clean track records.**
- If you experience a big drop in rental income and you do not have the reserves to cover those shortfalls, consider asking your lender for a payment holiday. I would only recommend this if you really need to do it.

As a quick aside to all this - remember that liquidity is going to come in very handy during the next 1-2 years, so if you have significant equity in your real estate portfolio, you may want to consider refinancing to boost your cash reserves.

STEP 4

Avoid buying or selling **occupied homes.**

The post covid-19 business environment is going to be part of our lives for the foreseeable future, so we should try make our investments as digestible as possible.

One of the things that has become crystal clear to me is that vacant properties are much easier to deal with than occupied homes.

While the "panic" about the pandemic has ebbed and flowed so far, whenever people are on the nervous side of the spectrum, the following occurs:

- Owners of occupied homes take them off the market because they don´t want to give people access to their house.
- Realtors and buyers are nervous about walking inside occupied homes.
- Appraisers, inspectors and photographers also avoid going inside occupied homes.

None of the above occurred for vacant homes. I personally sold 14 single family homes in April and May of 2020 without a hitch. All were vacant, fully renovated, professionally photographed, inspected and appraised.

Many of these homes were subsequently rented to new tenants. Again, while some property managers may be reluctant to get involved in an occupied property, they were all happy to place new tenants in a vacant property.

Whether you are a buyer, renter, flipper, wholesaler or real estate agent, **try to keep your life simple by limiting your exposure to occupied real estate.**

STEP 5

Exit speculative investments and **avoid heavy lifting.**

Now more than ever, you should stick to what has traditionally been “easier” and “more reliable”.

During a boom, you can get away with buying, selling, renovating and renting all sorts of difficult properties, but if you have ever done business in any other type of cycle you´ll know that isn´t always the case.

Whether you are a rehabber looking to flip or an investor looking for a steady rental, this is the time to keep it safe as far as property type and location is concerned.

- **Avoid houses that are a lot bigger, smaller or older than average.**
- Avoid weird layouts and weird lot sizes.
- Avoid busy intersections.
- Avoid crazy neighbors.

I´m very serious about this - you do not want to get stuck with a “difficult” house just after the market has peaked.

STEP 6

While prices might dip, **I do not think we will see the steep price falls** we saw back in 2008-2009.

I was contacted by a person in May 2020 who told me he wanted to buy homes in Tampa Florida at 25 cents on the dollar. He was seriously mistaken if he really believed those types of opportunities are going to be available any time soon.

If/when the falls in regular home prices do come, they might not occur until 2021 or even 2022. There are many reasons sellers can hold off discounting their homes but here are three:

1. People have a lot more equity in their homes than they did during the last recession, and most of today's mortgages have passed strict underwriting standards, which wasn't the case back in 2008. Having that equity buffer and a much higher borrower quality than the last real estate crash is a big help.
2. Record numbers of people have been refinancing to boost their cash reserves which means they can hold out for a better price much longer.
3. Forbearance will also take a while to run its course. If they choose to, people can press the pause button on their mortgage payments for up to 12 months.

In other words, if you think you´ll be able to buy a home by firing in low ball offers, you´ll probably be disappointed. **Despite the high unemployment numbers, most property owners are nowhere near distressed enough to give large discounts** and may not be for quite some time.

If you´re a wholesaler or fix and flipper looking for a deal, you can probably offer slightly less than the asking price, but not a lot less. Bear in mind that you will also have to be conservative with your resale price on the other side as well. If you stick with tried and trusted deals (avoiding the difficult home types identified in Step 5) with slightly more conservative underwriting, then you´ll do just fine.

On the other hand, if you´re a buy and hold person, just keep looking and make a fair offer when you find something. You can probably be a little more demanding with your terms, but not overly so.

STEP 7

If you´re a seller, price it fairly, be flexible and **get it sold.**

As a seller, this isn´t the time to drive a hard bargain.

As of June 2020, we are in a holding pattern as far as prices are concerned. We haven't seen the ongoing appreciation that we were seeing before the pandemic, but we haven't seen any real declines in home prices either. So **price fairly, be flexible and just get it closed.**

If you are selling a property that you recently bought and renovated, please don´t expect the market to bail you out the way it may have done during the previous cycle.

In other words, if you went over budget on a renovation, don´t add that difference onto your list price. If your home has floors, kitchens and a roof that is more dated than the comp across the street, don´t stretch your price to meet it. If you do, it may discourage people from even viewing or making offers and will probably sit on the market.

STEP 8

Target low density and affordable single family homes and **stay well below the median home price.**

Between 2015 - 2020 I invested in nothing but affordable single family homes in lower middle class areas. My business partners and I renovated more than 350 of them. **It wasn´t the sexiest part of the market, but it was quite profitable.**

Not only do I believe that it will continue to be profitable in 2021 and beyond, but I also think this is by far the safest category of real estate to have your money in.

Think of the alternative categories you could invest in:

1. **High end apartment complexes.** Owners of high end apartment complexes (particularly owners who bought after 2017) will be among the earliest dominos to fall and the first to default on mortgages. This asset category was already overpriced and savvy players have been exiting out for years. Too many new people have been buying apartment complexes at inflated prices with low cap rates based on rosy occupancy assumptions (which have now been turned on their head).
2. **Low end multi family.** I´ve never been a fan of this high maintenance asset class. You´re just dealing with too many issues relating to vacancies, maintenance and poor tenant quality. This is for speciality local players only - definitely not for passive out of state investors. You´ll just end up overpaying for what looks like a good deal on paper, but ends up losing you money year after year.
3. **High end single family.** The affluent buyers of high end homes are amongst the most price sensitive out there and they are usually the first to bailout when things look uncertain.

STEP 9

Pace yourself.
This is a **multi phase situation.**

In my opinion, it is going to take two years for the fog to clear from the real estate market. That doesn´t mean you can´t make money during those two years - you just need to proceed carefully.

At the time of writing (June 2020), we are coming towards the end of Phase 1, which was the initial lockdown. Businesses across the country are slowly starting to open again and they need to.

Phase 2 will start in June 2020 and could last up to 18 months. During that long period, job losses will peak and while the unemployment numbers should fall back dramatically in the next 18 months, **even the most optimistic economist will admit that far more people will still be out of work in January 2022 compared to January 2020.**

Unfortunately, high unemployment is going to be with us for quite a while and it will have a very meaningful impact on the real estate market.

Phase 3 is when we have a vaccine. A lot of estimates are floating around on that date. If we have a vaccine that has been widely distributed by January 2022 I think that would be a historic achievement. Perhaps it will be sooner, but whenever that happy event occurs, you´ll know we will be in the new reality and you should see multiple years of normal market trajectories again.

What I´m trying to say is that there is a pretty big "gap" between the easing of the initial and highly destructive lockdowns (June 2020) and the return of normality after a vaccine has been delivered (mid 2021 - early 2022).

Be careful with your money during that gap - keep learning, keep doing deals and get on with your life, but avoid taking big financial gambles.

STEP 10

Stay positive.

Staying positive is always a useful trait to have in business.

Real estate is always about cycles and trying to time them perfectly is a waste of time. Either you can sit on the sidelines waiting for a "perfect day" or you can continue investing conservatively.

If you´re an investor, you get used to the ups and downs. We are probably at the top of a cycle now - there might be a small drop before the next one starts or there might be a big drop.

My advice is to **figure out how much you want to have invested between now and when the bottom of this cycle is reached and spend part of it today.**

If you are a fix and flipper or a wholesaler, and the market plods along for another year or so, you´ll be very glad you continued to do deals during that time and you can bank the profits.

If the market falls earlier than that, at least you didn't invest all your money and kept some powder dry for better bargains. That is life for any type of investor who accepts they don´t know what the future holds.

Flipping and wholesaling are great for earning an income, but remember that **the easiest way to get wealth in real estate is to just own enough of it for long enough.**

So.... if you are a buy and hold person, you shouldn't care much about short term gyrations. Lock in a low interest rate, keep a healthy level of reserves and don't sweat the short term ebbs and flows!

If you bought a house for $200,000 today and have most of the mortgage paid off in 15-20 years time, do you really care what ups and downs occurred during the interim? Of course not! You´ll be doing just fine because you hung in there long enough.

Conclusion

Let´s recap those ten steps:

1. Increase your reserves and liquidity
2. Brush up on your digital skills
3. If you have tenants who aren´t paying, get in front of it
4. Avoid buying or selling occupied homes
5. Exit speculative investments and avoid heavy lifting
6. If you´re a buyer, don´t assume sellers will accept low ball offers
7. If you´re a seller, price fairly, be flexible and get it sold
8. Target low density and affordable single family homes
9. Pace yourself - this is a multiple phase situation
10. Stay positive: every crisis has a solution, expiration date and life lesson.

Remember that a crisis teaches us to be resilient, creative and gritty - all very useful traits to develop.

I learned a lot working in real estate in the rollercoaster 2006-2010 period (and have the scars to prove it) but it set the stage for a lot of successful transactions afterwards.

There will be some scars earned in the next 2 years as well but they will be what helps you accelerate beyond less ambitious people.

Good luck!!

Colin Murphy
Founder
www.colininvestments.com
info@colininvestments.com

colin
reports