

Are you making these 3 wholesale real estate mistakes?

Wholesale Real Estate Mistakes

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/EINPresswire.com/ -- Wholesale real estate is a numbers game. Run the numbers wrong - or fail to run them all - and you ruin your chances of making a profit. Here are three easy-to-make mistakes you should avoid at all costs:

Relying on for-sale prices for comps

To determine how much to offer on a property, you need to know how much comparable properties are selling for. Without good comps, you don't know how to price a property or how much you can spend and still make a profit. The easy way to find comps is to look at online listings like Trulia or Realtor.com, but you have to be very careful.

A lot of for-sale prices are high price anchors or even wishful thinking. They'll never actually sell for that price and will end up being negotiated way down. If you use those prices as comps, you'll end up with a property you can't get rid of unless you take a loss.

So what can you do?

Real estate sales produce a public record that anyone can access, but very few details about the property. So you can gather than pricing information, look up the address, and gather pictures and details about the property from the expired listing.

Even better, build a relationship with a good local realtor. They can help you find comps and provide sale details from MLS. You may be able to help them with referrals to build a mutually beneficial relationship, but if not it would be well worth paying them for their time to help you.



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Not giving yourself enough margin

Keep in mind that wholesaling needs to create a profit for not one but two parties. Once you've figured out the comps and determined a reasonable final selling price for the property, you need to make sure there's enough room for you and your buyer to make a profit.

This is where you really need to crunch the numbers. You have to figure out the profit margin your buyer will expect to make on their sale and decide how much you want to make too. Then you need to factor in costs to lock down the pricing when you market the property.

A lot of wholesalers buy too high and don't leave enough room for everyone to profit. That means either you'll end up discounting the price and losing all your profit or you'll struggle to find a buyer. No one wants to buy a property they can't confidently sell fairly quickly.

So, make sure you run those numbers, know your buyers and your market, and only jump in when you find enough margin for a win-win.

Not proactively planning for taxes

If you're new to wholesaling, you may need to make a mindset shift to maximize your profits. Sure, you may think of yourself as a real estate investor, and that's true, but the IRS doesn't see it that way.

If you held a couple of properties, rented them out, or sold one here and there, you would be. But as a wholesaler, you're seen as a real estate professional. Of course, that has a nice ring to it, but there's a downside. Investors pay capital gains tax when they gain from a sale. This is typically a fairly low tax rate.

A professional, on the other hand, pays the regular marginal rate on income because your sales are seen as regular income from the regular course of your business. That means you're likely to pay more in taxes on every dollar you make, and it means you need to be much more aware of the tax implications of every action.

First, you need to start looking at taxes as a business owner, rather than an investor. You need to make the most of your tax deductions and track your expenses carefully. It's likely that you spend quite a bit on advertising and on vehicle expenses to drive around looking at neighborhoods and properties. Those expenses are deductible, but only if you keep track.

Second, you need to factor in the taxes when you price properties and make deals. How much do you want to put in your pocket this year? How much do you need to make from each deal to reach that goal? To figure out how many properties you need to sell and how much profit you need to make, you should be thinking in terms of after-tax income so you don't come up short after Uncle Sam takes his cut.

Avoid these 3 wholesale real estate mistakes and you'll be on your way to a more successful

wholesaling business in no time.

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