

Ten Ways
to Buy
Low



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TEN WAYS to BUY LOW

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“Buying Low”....easier said than done?

“Buying Low”....how do we do it?

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Scott Frank

Many of us can fondly remember time spent sharing our father's passions. My father (Denny Frank) was a huge sports fan, and I fondly remember spending time playing sports and watching ballgames with him. We also spent hours playing Monopoly, and Andy and I have always found it interesting that both of us played a lot of Monopoly growing up.

Another passion my father had was real estate investing, and I also have great childhood memories of spending time with him experiencing the business. Many times he took me, my mother (Ellen), my brother (Brian), and my sister (Marcy) along as he went to preview, rehab, and show his properties. My father often explained what he was doing with the properties and why. I saw firsthand the successes, challenges, and opportunities that came with real estate investing.

Tragically, my father passed away in a car accident when I had just turned twenty years old. In addition to dealing with our sudden and tragic loss, we had to consider what to do with my father's real estate portfolio. One option was to sell the properties. However, my father had instilled in us the value of holding onto real estate and allowing it to appreciate over time. Additionally, if we sold the homes, much of my father's hard work would have been wasted with a big chunk of the equity from my father's portfolio being eaten up with real estate commissions. On the other hand, my parents were divorced, my younger siblings were too young to offer any assistance, and there was no older relative nearby to help out.

Maybe it was the shock clouding my judgment or maybe it was my desire to honor my father's memory and his hard work. Whatever it was, I felt it was the logical choice to keep and manage the properties. I was young, but I had watched my father over the years. My father had allowed me to invest in some of these homes over the last few years, and I felt confident (probably naively) in my abilities. My brother and sister agreed that we would keep the homes initially, and see if I was up to the task.

Things actually worked out fine. It was not easy for me with college, and the normal pressures and interests of a twenty year old kid, but everything came together over the next few years. I joined the Georgia Real Estate Investor's Association and talked to many other investors. Interestingly, the properties were also a form of therapy for me, as I often thought of my father when I went to a property or deposited a rent check. I enjoyed working on the properties, and I knew they would bring my family financial security as the years progressed. As my siblings grew older, they began to become more involved with our father's real estate business, and we were all able to share in his legacy. The properties ultimately gave us a special bond and proved to be financially rewarding.

Therefore, real estate for me was an inherited passion and interest, which was passed down to me from my father. The program Andy and I have developed differs in many respects from the model my father used. However, the seed which eventually became the "Buy Low, Rent Smart, Sell High" program was planted many years earlier, as a young boy, when I shared a passion with my role model, my beloved father.



Andy Heller

I was attracted to real estate in the late 1980s. There was a short-lived recession around 1987, and I had just recently graduated from college. Companies were downsizing to adjust to the slowdown in the economy, and it made a strong impression on me to witness executives with twenty and thirty years dedicated to working for one company facing layoffs. Growing up, my parents had spoken of the security that an employee gets working with an established and stable North American firm. This was obviously changing.

I did not realize at the time the extent that corporate downsizing and reductions in employee benefits would become way more commonplace in the 1990s and the 21st century. But the trend was alarming, and observing this left me with the impression that if I wanted to secure my, and my future family's future, I would need to take steps to insure this MYSELF. It was clear to me as the 1980s drew to a close that the days of your lifelong employer taking care of you and your family when you retired were either over, or at best, in jeopardy.

This feeling later gave way to despair. On a positive note, my parents had seen to it that I left college without debt that many new college graduates face as they seek to build a life while repaying thousands of dollars of student loans. On a negative side, the size of my checking account allowed me to take care of little more than my basic obligations. The reality of my less than sizable base was rather disconcerting.

As a kid, I spent hours playing Monopoly. Despite my youth, it was not lost on me that one could acquire a very valuable piece of property, for a fraction of the property's fair market value. Applying this to the real world, I made an interesting observation when examining the growth potential of the two most popular investments amongst families building their nest eggs. \$5000 cash will buy you \$5000 worth of stocks. If the stocks do real well, 5 years later you now have maybe as much as \$7500. Your investment increased by 50%, but you put only \$2500 in your pocket.

\$5000 cash with the right loan and a carefully structured offer might allow an investor to acquire a \$100,000 home. Discounting for a moment if you were able to purchase the home at a discount, if the real estate market appreciated by just 4-5% per year then after 5 years you would have an asset worth approximately \$125,000. Looking only at the initial cash investment, the \$5000 in five years increased 500% to \$25,000. Simply put, for me, real estate appeared to be the most attractive and the logical means to make my limited funds go as far as possible in insuring my retirement and security. I made the decision at 24 years of age to begin saving money to buy my first home. I made the decision that I would secure my future MYSELF, through my real estate investments

I. INTRODUCTION

“Buying Low”....easier said than done?

“Buying Low”....how do we do it?

“Buying Low”....where does a new investor start?

Many of you receiving this e-book have read our signature book, “Buy Low, Rent Smart, Sell High”. In our book, we detail how you can turn a \$30,000 investment into over a million dollars of equity and cash in less than ten years.

We are very proud that our approach was recognized as a grounded, realistic investment vehicle. Most recently our book was only one of five real estate books recommended by *Fortune Magazine* in the January 2005 investment planning edition. Our book has also been recommended by among others syndicated real estate columnist **Bob Bruss**, syndicated financial planning columnist **Ilyce Glink**, **Publisher’s Weekly**, **Real Estate Magazine**, and **Black Enterprise**.

As noted above, the response to our book from respected periodicals and critics has been wonderful. More important to us has been the wonderful response from our readers...and if you are receiving this e-book there is a very good chance that you are among these readers we wish to thank and acknowledge.

At the top of the list of e-mails and feedback from our readers has been a request for more detail on the varied residential property sources. More specifically, what means are out there to investors who seek to purchase residential property below market...what we refer to in our book and our program as “Buying Low”. In this e-book we will look at ten of the most common means of acquiring residential real estate below market, and offer the pros, cons, and our personal opinion of each.

We hope you enjoy the book.

II. GETTING STARTED

Overview

Many new investors focus their initial efforts on buying property. On the surface this certainly seems logical. Our recommendation however is to focus on buying LAST! What do we mean by such a seemingly odd statement? Well, as this is not a live seminar we will answer our own question.

We feel it is essential to FIRST determine what you intend to do with the homes once you buy them. Do you want to follow the program outlined in our book "Buy Low, Rent Smart, Sell High", or do you want to flip the properties for immediate profit? Or how about any of the hundreds of other programs detailed in other books and seminars? We may be just a bit biased towards our program as detailed in our book "Buy Low, Rent Smart, Sell High", but there are certainly other excellent investment vehicles perfected by other authors and investors.

Different investment vehicles carry with them different levels of risk, and also different levels of return. What do we mean by that?

Investor Margins

Our program detailed in "Buy Low, Rent Smart, Sell High" minimizes holding cost by getting a lease/purchaser into the home very quickly. Because of our unique marketing method, we are able to generate good cash flow from rents on our homes quickly. This allows us to buy properties for as little as 10-15% below fair market value and still make a nice profit. We refer to this 10-15% we save when purchasing a home as the investor profit margin or simply the "investor margin".

Investors who "Buy and Flip" properties often must seek higher investor discounts, because they are eliminating the ability to quickly rent the property. If a buyer does not come by quickly, the "buy and flip" investor will have to hold onto the property longer as he awaits a buyer willing to pay his asking price. The "buy and flip" investor may also need to discount or use a real estate agent in order to sell his property. Because of these factors, "buy and flip" investors generally need greater investor margins than other types of investors. This need for a greater margin eliminates some "buy low" options.

On the other hand a "buy and hold", or rental investor, may be able to operate his business profitably using a minimal investor margin of just 5-10%. If the "buy and hold" investor is buying property in a particularly strong rental market, he may be able to operate profitably on a smaller investor margin due to his ease of renting.

Each of these and all the other investment vehicles have certain tendencies associated with them. For example, many investors who "buy and flip" do so because they have no interest whatsoever in being a landlord. Figure out what type of investor you want to be, pick a specific program, and that will accomplish two key objectives:

- this will give you a business plan to focus on
- this will dictate the investor margin you need when purchasing residential investment real estate

Cash on Hand

The other key variable when selecting your preferred investment program is your available CASH. Certain property buying methods require more available cash than others, and you may not be starting out with sufficient cash for some of the purchasing programs.

Be careful with partners or borrowing from friends and family. When we give seminars, we often meet people who are totally excited about getting into real estate, but they just don't have the funds to match their excitement. Often, they describe their plans to bring in partners and family members to allow them to invest NOW. We advise most people to wait the two or three years to save the necessary funds, so that they can make the investment without the need for partners.

Why?

One of the quickest ways to make a friend an ex/friend or to get kicked off a family member's Christmas or Hanukah gift list is to bring them in as a business partner. Successful partnership's like ours are quite rare, and generally you find money squabbles or personality conflicts eventually sour the partnership. You lose both a partner and a friend or alienate a family member. This is our "opinion". We also heard this point expressed in a speech by respected financial adviser Suzy Orman. When asked about working with family and friends, Suzy Orman said she had "one word and only one word of advice" ...DON'T!

In sum, your "buy low" options should be a realistic match for the available cash you have accessible for your real estate investment(s). What follows is a brief overview of the most common "buy low" methods available to the residential real estate investor.



1

PRE-FORECLOSURE

1. PRE-FORECLOSURE

Overview

One of the most written about methods of acquiring residential properties is the method of purchasing pre-foreclosures. What is a pre-foreclosure?

A Pre-foreclosure is a home purchased directly from an individual who has fallen behind in his or her payments, and will be facing foreclosure in the near future. The pre-foreclosure period can be divided into two stages:

1. Stage One is when a homeowner first gets behind in their mortgage payments, and up until official notification of pending foreclosure. During this stage if a homeowner has equity in the property, he will either still be of the opinion that he can catch up and save the home or will want to sell the property and take with him the equity gained from the sale. An investor sometimes can find these homes advertised by the seller through tips from friends or real estate agents. Investors have also been known to place ads in the newspaper or other medians advertising that "WE BUY HOMES FAST" or "we pay good money for homes in distress and can act FAST!"the different ads are generally some variation of this theme.
2. Stage Two is the last month before foreclosure. At this point a homeowner is likely 2-5 months behind in payments, and the bank or lender files for foreclosure on the home. The filing is a public record and (in many states) the foreclosing party is required to publish the pending foreclosure in the local county newspaper for four weeks leading up to the foreclosure sale. Investors have been known to review these publications for contact information. Some communities have a service or company that compiles these notices and publishes online and/or hardcopy lists of foreclosures in a given state or community. Investors subscribe to these lists, and contact the owners facing foreclosure. At this point the homeowner has less than four weeks to act, and will either be in denial about the pending foreclosure or will be ready to deal.

The numbers of pre-foreclosures have increased over the years. Sadly, this is a function of the large amounts of debt carried by many in our society today. There are so many people in the U.S. and Canada today living beyond their means, and they do not have ample cushion when life events take a negative turn. Business failure, unexpected job loss, divorce, poor financial planning, and family illness are additional reasons often responsible for foreclosure. If you choose to focus on acquiring properties in the pre-foreclosure stage, you will likely not need to worry about supply as this source of supply will probably only grow in years to come.

Pros

The most appealing attributes of this sourcing mechanism is the abundant supply of pre-foreclosure homes, and the huge profits available to investors.

Cons

There are two primary negatives associated with this sourcing method. First, partly because there are so many books and seminars written about pre-foreclosures, there are many investors seeking to purchase pre-foreclosure homes. Many of these investors are rookie investors fresh out of seminars or boot camps detailing the wonders of purchasing pre-foreclosures, and some of these rookie investors are willing to pay too much for these homes. These investors paying too much for properties will reduce the pool of available properties with the most attractive discounts.

Secondly, irrespective of the reason, you will likely be dealing with a family in a downward spiral. Their life will probably be falling apart, and even if you deal with them honorably and respect their dignity, most families will view you as an "opportunist" or "parasite". The challenge of dealing with this "human element" will prove too much to deal with for many investors.

In the early days we visited one of these families with about two weeks left before the foreclosure sale. This family was realistic and easy to deal with, and they did not view us as "foreclosure sharks". The husband and wife had simply been victimized by bad timing, as they both lost their jobs in the same month. Andy visited this family, and he was almost in tears as he previewed the home. During his viewing, the little girl pulled him aside and pointed out the "doggie window". The "doggie window" was the hole in the kitchen door cut out for the family dog to use when nature called.

This home was part of the history and lifeline of this particular family, and we were about to snatch it up and make as much money as we could. We did not have skin thick enough to do this on a repetitive basis, and the "doggie window" house was the last pre-foreclosure we ever visited. Happily, the husband got a job the next week and the VA came through with an emergency loan... This family saved their "doggie window" home. However, often these endings are not nearly so happy, and you will need to be prepared to witness first hand (and profit from) many similar sad stories.

Our thoughts

When we started, we were those investors fresh out of seminars and reading books who sought to make a fortune purchasing pre-foreclosures. Pre-foreclosures were suppose to be our primary sourcing mechanism. The "human element" we describe above was too much for us to deal with. Others are able to deal with this easier, and this can be a wonderful sourcing mechanism if you are able to disconnect yourself from the troubles of the families you will be profiting from. Simply put, we were not able to do this and after two or three months of trying we abandoned this method of purchasing discount residential real estate.

2

FORECLOSURE SALES



2. FORECLOSURE SALES

Overview

If a homeowner is unable to bring his mortgage current in the pre-foreclosure stage, then his property will go to foreclosure. In many states, this takes the form of an old fashioned auction. In many states, on the first Tuesday of every month, the previous month's foreclosures are auctioned off to the highest bidder on the courthouse steps.

Today, there are numerous new and creative homeowner loans available to consumers. Many of these new loans require ridiculously low down payments, with some incentive programs structured to promote first-time home ownership requiring no down payment whatsoever. Therefore, the result of this is that many homes go to foreclosure with little equity in the property.

A lot of other homes that go to foreclosure are trashed by the homeowner as a form of revenge on the mortgage company, or simply not kept up for a long period of time due to obvious lack of funds available for proper upkeep. These homes will usually require significant expenses to repair. Also, oftentimes it will be hard to gain access inside of these homes prior to the foreclosure sale. Therefore, there are often many hidden repairs for these properties.

Accordingly, that leaves a small percentage of homes worth buying at foreclosure. The market value of the property, condition of the property, the savvy and size of the local investment community, access to the home, and old fashioned luck are all components which affect how many investors show up to bid on specific properties. Not surprising, the more investors bidding on any one property, the higher the sales price will generally be. Oftentimes, states require that successful bidders present, at that time or within 24 hours, certified funds for the full cash value of the winning bid price.

Pros

Purchasing at foreclosure sales can be quite lucrative, and the investor does not need to deal with a distressed family, which is an integral part of the pre-foreclosure method. This method is simply a business transaction. This is because that, in many states, by the time a property hits the foreclosure auction, the previous homeowner has lost the property and exhausted his options to keep the home. Please note that, in some states, the previous homeowner has a period of time whereby he can purchase his home back from the new owner. You will need to check this out within your particular state.

Cons

There are three main negatives to purchasing at foreclosure sales. The first is the significant cash needs required to purchase in this manner. An investor purchasing at the foreclosure sale will often need a large amount of money, a substantial line of credit, or a backer with ample funds. This impediment will eliminate most beginning investors.

The second major negative associated with purchasing at foreclosure sales is the inability to preview properties prior to purchasing. Homeowners in dire financial straits will often stay in the house up to the very end. In fact, it is not uncommon for homeowners to remain in the home even after the foreclosure sale. Many remain in the home up until the sheriff comes to evict them. Therefore, it may be impossible for the investor to preview the condition of the property.

In this case, an investor will likely estimate the market value of the property in good condition, estimate the repairs he is likely to find once he is able to access the property, and determine the maximum he will offer at the sale. As discussed above, the problem is that when a homeowner is unable to pay the mortgage, then they also are usually unable to pay for proper upkeep of the property. It is not uncommon for an investor to find a significant hidden expense after she has purchased the home and only after she gains access to the property. For example an investor may estimate \$20,000 in repairs and improvements, then once she has purchased the property, she is disappointed to find that the entire HVAC system is not functional, and this will require an additional \$7,000 to replace. There is also the "trash the home" possibility (as described above), where the homeowner wrongfully takes out his frustration on the home and mortgage company.

The final major negative associated with purchasing at foreclosure sales is increased legal expenses. Properties may carry with them additional liens, and this may not be readily apparent when reviewing the listing on the home from a foreclosure publication or website. You will need accurate information on titles and liens for any home you are bidding on, and this is an increased expense not associated with many of the other property buying methods.

Our thoughts

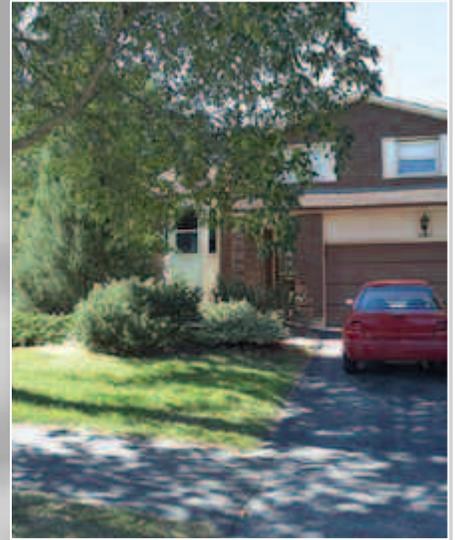
In the past, we have gone to foreclosure sales to bid on properties. However, to date, we have never successfully acquired a home using this method. We are generally a little too conservative to purchase properties that tie up significant portions of our cash, we have not been able to preview, or have had to find legal expenses associated with them.

The times that we have gone to the sale to purchase properties have been situations where we have been tipped off on a particular property by one of our contacts. We have known about the condition of the property, how much the bank has in the property, the market value, and the existence of any additional liens. Interestingly, one time we were incorrectly advised of a legal aspect on one of the properties we were bidding on by one of the attorneys we knew. Had we successfully purchased this property we would have lost a substantial sum of money. The lesson we took from this is that purchasing at the foreclosure sale can be quite risky because a key detail can be missing during the research phase leading up to the sale.

We know of a company that purchases investment homes primarily at the foreclosure sale. The business model of this company has them purchasing 10-15 properties per month at the foreclosure sale. They have an in-house team of attorneys that research each property they intend to bid on. If they happen to acquire a property with significant unexpected repairs or with an unknown lien, they are able to offset occasional miscalculations with the volume of properties they purchase each month.

Few investors starting out are large enough to purchase in such a volume. Therefore, while profitable, purchasing at the foreclosure sale is not one of our preferred sourcing methods.

Ten Ways to Buy Low



3 POST-FORECLOSURES

3. POST-FORECLOSURES

Overview

If the loan on a property is not brought current during the pre-foreclosure stage, and the home is not purchased at the foreclosure sale, then the property goes back to the bank, mortgage company or other lender. As we mentioned earlier, these creative new loans that require low or no down payments structured to promote easy home ownership has led to record numbers of foreclosures. With so little equity, these homes are not attractive to investors at the sale, and they go back to the lender.

If the lender is a bank or mortgage company, then the property will often go to a department known as either the REO (Real Estate Owned) or post-foreclosure department. This is the department that is entrusted with disposing of the foreclosed property. It is important to understand a key concept here. Banks and mortgage companies are in the business of lending money....NOT MANAGING A REAL ESTATE PORTFOLIO!

Banks and mortgage companies make their profits when they loan money. Therefore, when too many properties sit on their books in the REO or post-foreclosure department, this acts as a drain on the profits of the lender. Of course, the lenders would like to maximize the resale value of their REO properties. However, they are often willing to discount these properties when a property has been on the books too long or if they have too many properties in their REO portfolio.

Lenders will usually dispose of these properties in one of three ways:

1. They will market in-house only
2. They will market through local real estate agents, but are open to selling directly to a buyer without the help of a real estate agent
3. They will market exclusively through local real estate agents

Approaching banks can be as simple as making one phone call or appear to be next to impossible. Small and regional banks are normally the most accessible. For the larger banks, you may need to do a bit more digging. In either case, the process is the same.

Call the main office of the national, regional, or local banks. Explain you are an investor and you would like contact information for the bank's REO or post-foreclosure department. Depending on the size of the bank and the competence of the person you happen to reach on the phone, you may find that it will take you multiple phone calls or some patient explaining and guidance to get the contact information you are seeking.

Remember, banks and mortgage companies are in the business of lending money and phone calls about purchasing properties may be very uncommon. Therefore, the receptionist or bank employee handling your call may not know how to assist you. Accordingly, don't give up here, as this is not an indicating factor of how many REO properties a lender may commonly have.

Once you get to the REO department, you want to identify yourself as an investor in the community you are seeking to purchase properties. Ask the bank if you can work with them directly, or what their specific policy might be for dealing with REO properties. They may add you to a list that receives monthly e-mails of their foreclosures, they may refer you to an agent that deals with disposing of their properties in your target community, or they may simply tell you to call and check in with them each month to see what they have at that time.

We have found that most of the larger banks and some of the regional banks have real estate agents they commonly work with in each community. They are sometimes referred to as "REO Agents". We have noticed that generally only the best of the best of any community's pool of real estate agents have relationships with banks and mortgage companies.

Note to Scott...we coined the phrase "REO agent". I never heard of it as an industry term. I liked the way we discussed this better in the first version. – I'm not so sure no one else is using it, and if others are...we lose credibility. Additionally, we don't get much for coining a phrase.

How do you locate these post-foreclosure real estate agents (the REO Agents)?

- **Networking:** This remains the best way to locate REO agents. As we began investing in our target community we got to know a large number of top real estate agents. At lunch one day with one of these agents, she shared with us the names of a dozen or so of the top agents in our target community that had a regular portfolio of bank-owned properties. We picked up a few more names over the years, but that one lunch was pretty much all we needed. We got busy on the phone, called the agents, and introduced ourselves. This was not a difficult step. Finding these agents is simply about networking, pounding the pavement, and investing time and energy in getting to know the agent community in your target investment area.
- **Signs:** Many Real Estate agents place the words "Bank Owned" or "Foreclosure" on the real estate signs in front of homes for sale that are REO properties. This is done for the sole purpose of generating more interest, as many who hope to acquire homes at a discount. Simply contact the agent listing the property and find out if he or she commonly lists bank-owned properties.
- **The Lender:** Many times, when we first make contact with the bank or mortgage company, the lender will give us the names and contact information of the real estate agents they work with in our target community.

Pros

There are a number of attractive elements to purchasing post-foreclosures. These include:

- **Large pool:** Today, there is a large number of available post-foreclosures fueled by increasing numbers of foreclosures on properties with little or no equity.
- **No “human element”:** Unlike pre-foreclosures, post-foreclosures are being marketed predominately by banks and mortgage companies. It is a simple business transaction, without an emotionally attached seller.
- **Low risk:** Post-foreclosures are available for viewing and inspection. An investor can, thus, preview the property and determine the respective repair and improvement costs. Also, there is usually adequate time between putting a contract on the home and closing on the home, which gives you time to do a title search. Therefore, you can eliminate the risk of hidden liens or title issues. Additionally, lenders often take care of those issues before listing the property.
- **Low cash needs:** Post-foreclosures do not require the significant cash outlays of foreclosure sales and some other investment methods. You will typically have a reasonable amount of time to find a loan. Investor loans are available today for as little as 10% down, and some include the ability to fund repairs and improvement needs with the loan.
- **In-house financing:** Sometimes you can get the lender selling the property to offer financing. After all, they are usually a bank or mortgage company. This could simplify the purchase process for you, and at the same time reduce your financing costs should the lender be willing to absorb the closing costs of their in-house loan.
- **Minimal time:** Because this is often a relationship-oriented buying method, once you have established the key contacts in your community it will become easier to purchase subsequent properties. If you are trying to invest while still managing your day job, this will be a huge benefit to maximizing the growth potential of your portfolio by minimizing the time spent in the buy low step of real estate investing.

Cons

The most significant negative associated with purchasing post-foreclosures is the sometimes limited investor margin. Post-foreclosures generally are marketed by real estate agents because this allows for maximum exposure of the properties to the retail market. This means the highest level of competition for the properties. Investors like you will, therefore, be competing with other investors and retail buyers. Banks and lenders will also often consider the 6-7% they are generally paying in real estate commission. This may impact the lender’s willingness to negotiate on the property.

For post-foreclosures, margins of 10-20% are common. Margins beyond 20% are uncommon. Therefore, if you are looking to make a killing in just a handful of real estate investments and have significant financial means, post-foreclosures alone may not represent the investor margins you are seeking.

Our thoughts

The purchase of post-foreclosures has been our primary means of acquiring discount real estate. It is a relationship-oriented buying method, and it was not especially difficult starting out in our early years when we were without significant funds, experience, or contacts.

For us, post-foreclosures is a KEY COMPONENT of our entire “Buy Low, Rent Smart, Sell High” formula. It’s part of our entire investment formula. We believe that an investor will be challenged to find a more lucrative and stable buying method. We have made SIGNIFICANT amounts of money on some properties and we have NEVER lost money on a purchase using this method. We have also found the profits using this method to be dependable and consistent.

Our very first investment home purchase serves as a good illustrative example of why we are so high on the post-foreclosure method. Again, we initially intended to purchase homes during the one month period leading up to foreclosure. Therefore, we contacted one family facing foreclosure. The homeowner was distraught, and it was difficult to get her to focus on the realities of her situation. We never reached a point of making her an offer, and she lost the home to foreclosure. The home did not sell at the foreclosure sale and days later we introduced ourselves to the REO manager of the regional bank. We told the REO manager that we had been following the home through the foreclosure process. We further promised him that, if he would allow us access before he listed the property with an agent, we would have an offer on his desk within days. The REO manager agreed and, as he didn’t have to pay a 7% real estate commission, we quickly and fairly easily reached an agreement.

Purchases of REO property in the post-foreclosure process is not always as easy as with our first home. However, for part-time investors with day jobs, it may be the most EFFICIENT means of acquiring discount properties through minimal time and effort.



4 PURCHASING FROM DISTRESSED SELLERS

4. PURCHASING FROM DISTRESSED SELLERS

Overview

There are many distressed sellers who are not facing foreclosure...simply homeowners in trouble who need to get out of their homes. Divorce, job loss, and illness are three of the most common reasons that families find themselves in distressed situations, and needing to raise capital quickly.

How do you find these homeowners? Placing ads in the newspaper offering to purchase quickly is probably the best way to attract distressed sellers. Networking with divorce attorneys may also yield some results.

Pros

Depending on how fast a distressed seller needs to sell and how quickly you can act, you may be able to get a considerable discount margin. Unlike foreclosure sales, you can generally get into and inspect the properties thoroughly. Also, since the homeowner is not facing foreclosure, there will not be the huge time constraint present when purchasing pre-foreclosures. This will afford you the luxury of a little more time, so generally you should be able to base your offer on an investor loan rather than pure cash.

Cons

See above under pre-foreclosures. The cons are virtually identical. Many investors will simply find the "human element" of dealing with families in dire situations to be unbearable.

Our thoughts

Though not always, this method often entails taking advantage of people in a bind. Accordingly, though this method can be lucrative, it is not our cup of tea and we do not use it.

Ten Ways to Buy Low



5 REAL ESTATE AUCTIONS

5. REAL ESTATE AUCTIONS

Overview



Real estate auctions have become increasingly popular in recent years. Popular auction houses, such as Hudson and Marshall, have monthly real estate auctions in major metropolitan areas. The auctions are often not limited to properties in the major metropolitan area. For example, Hudson and Marshall has regular auctions in Atlanta, and the Atlanta-based auction includes properties throughout the state of Georgia.

Homes rarely go to auction as a first-choice sales outlet. Many homes that go to auction are homes that are or just recently were listed with a local real estate agent. They are going to auction because the agent has not produced an offer the seller was willing to accept. After a handful of months the seller becomes frustrated and advises the agent that the listing will go to auction in the event that an acceptable offer is not produced before the auction date.

Every auction house has its own set of rules, and you will need to familiarize yourself with the operating parameters of the auction house before coming to bid. Most auction houses maintain a free mailing list and/or website listing homes that are scheduled for sale at an upcoming auction. Often, the present listing agent or the auction house will be able to provide access to the house prior to auction. Therefore, you should be able to preview the condition of the property in advance of the auction and determine which ones meet your investment criteria.

When an auction house notifies the listing agent of their plans to sell the property at an auction, this also serves as a wake-up call to the agent that the seller is not pleased with the results of the listing efforts to date. Therefore, many real estate agents step up their sales efforts in the weeks leading up to the auction. The result is that many properties scheduled for auction actually never make it to auction and go under contract or are sold just prior to the auction.

Many new investors do not know about this, and think that every house scheduled for auction will actually go to auction. Is this done intentionally to draw more traffic to the auction? Though we do not know for sure, it would make sense for an auction house to want to draw traffic to the auction. It is also not unreasonable to assume that an investor, who shows up at an auction disappointed to find his targeted property already sold, might in fact consider bidding on another property simply because he is at the auction and is anxious to make a bid on a property.

Most auctions resemble foreclosure sales, with the winning bidders required to pay in full within 1-2 business days of the auction. Some auctions will allow an investor to purchase with financing, as long as they are able to bring proof of prequalification, while others allow financing without any up front proof whatsoever. Many auction houses guarantee there will be no title problems with the property.

Reputable auction houses in your area can usually be located quite easily by networking with your local real estate agents, your local real estate investment club, or established real estate attorneys. You can also find them by checking the local newspaper's real estate section. Running a search on the internet is another excellent tool for locating auction houses.

Some people like the auction format where you bid publicly and quickly against others. Therefore, you may also be interested in foreclosure sales (see method 2) and tax deed sales (see method 6) which are both technically types of auctions.

In the last five years, certain internet auction houses have also become quite popular. Perhaps the best known are e-bay and bargain.com, which have become popular outlets for deals. We have heard that millions of dollars of real estate are bought and sold each year on e-bay.

Pros

Purchasing at an auction house can be a very "efficient" use of your time. If the auction house carries a nice portfolio of properties, you can preview any and all of the properties that meet your investment criteria. You can actually come to the auction prepared to purchase one or more homes you have researched in the days leading up to auction.

An auction also eliminates any negotiations, an unavoidable step in the purchasing process, which not all investors enjoy. You are not negotiating for weeks with a bank, but are simply bidding for a few minutes against other investors who desire the same property. If you have the discipline to stop at your ceiling price (the top purchase price that still gives you an adequate investor margin), you can walk away without the stress and heartache common in many direct negotiations with a seller that usually stretch over days and weeks.

Cons

Unlike other buying methods, it is difficult to generalize with auction houses. The procedures, policies, and experience may vary significantly from one auction house to another auction house. Therefore, we recommend that you do your research on them before showing up to the auction.

As mentioned above, some auction houses limit themselves to dealing with investors who are able to come up with 100% cash within a specified amount of time, generally 24 hours. This is similar to bidding on homes at the foreclosure sale. Obviously, if you do not have available that type of cash readily available, then these particular auctions will not be for you.

Additionally, some auction houses will not be run very professionally, and buying a house is a substantially more involved and risky investment than buying a low ticket item like an antique table at auction. This may frustrate you or make you nervous. If so, stay away from these auction houses.

Auction houses play on emotion, and if you do not have a lot of self-discipline then an auction house may not be a good source for you to seek discount real estate. Again, this is not like bidding on an antique table for \$5000. The key is you MUST be able to walk into an auction house with a plan, and you must be confident that you will be able to resist the temptation to sway from your plan.

Our thoughts

We've purchased from Hudson and Marshall auction house. When we participate, we come prepared to bid on a minimum of five homes, and we have established ceiling prices on each of them. We exert the utmost will power on these properties to keep from exceeding our ceiling price. Auctions pry on the emotional energy in the room, and it is true that the electricity at some auctions can really draw you in. It is not difficult to get caught up in the excitement and want to leave with one of the "prizes" for your efforts and time investment.

We are able to resist these urges, and we have found good deals at this auction house. It is exciting, stressful, electric, and (to be completely honest) quite fun. The only reason we do not spend more time pursuing auctions is that our post-foreclosure sources feed us more properties, and it is simply a more efficient use of our time. If you do your due diligence and carefully research properties you want to bid on and are disciplined enough to resist the urge to exceed your ceiling prices, auctions without a lot of financing restrictions can be a solid source of acquiring discount real estate.

However, remember that the main reason that sellers use auctions as a means to sell property is that they anticipate a higher return than they would get with the listing agent. Even with the commission paid to the auction house, sellers are generally able to get more money than if they discounted the property and kept it listed with their real estate agent. The reason for this is that auctions are a wonderful vehicle for getting buyers to pay a bit more than they would under normal (relaxed) circumstances. Some sellers have the auctioneers set a minimum or starting price that is already above the previous net listing price minus the real estate commission they will not be paying.

Understanding the seller's motivation to use an auction house may be helpful to install the discipline needed to successfully bid at an auction. We fondly remember our first auction. Scott had a conflict that evening and Andy went by himself. The previous day Scott had repeatedly warned Andy to keep his emotions in check, and not to exceed the agreed upon ceiling prices. Andy still remembers how Scott's warnings were so strong, that they were continuously echoing in his head all during the auction. This constant echo kept Andy's emotions in check, and while tempting, he did not exceed the ceiling prices previously agreed upon.

You may not have Scott's words of caution ringing in your ear. However, you will need the discipline we speak of if you are going to use auctions as a method for buying discount real estate.

Ten Ways to Buy Low



6 TAX LIENS AND TAX DEEDS

6. TAX LIENS AND TAX DEEDS

Overview

Investing in tax liens and tax deeds is getting a lot of press lately. At a number of real estate seminars, we have seen other investors speaking of untold riches easily available to those who invests in these.

The basic premise behind the tax lien is that a county needs the revenue from taxes TODAY in order to pay for the services the county offers to the residents of the county TOMORROW. When a homeowner becomes delinquent with his or her taxes, this puts the county in a position where they are looking at a tax deficit. Therefore, the county basically "auctions" the delinquent homeowner's tax obligation in the form of a tax lien.

There are considerable procedural differences in the bidding process. There are differences by state and by county, and you will need to research the specific procedures of the states and counties that you wish to target. Additionally, many states have a minimum and some have a maximum bid amount an investor is allowed for liens in that state. Once the lien is acquired by the investor the property owner has a chance to redeem his tax debt, which tends to be one to two years. Many of the properties will be redeemed by the owner.

A big misconception about tax liens is that all you will find are "crack houses" and other properties in horrible condition that nobody wants. While many homes certainly fall into this category, plenty of nice homes have tax liens. Oftentimes, the basis for the lien is simple neglect. The owner can afford the taxes but just did not pay his taxes by the due date.

In one example, a wealthy owner might own his home free and clear. Therefore, the taxes are not conveniently paid from his mortgage's escrow account. Bills that come monthly like cable and credit card bills are easy to track and remember. Property tax bills come once or twice a year, and thus many times the homeowner does not account for the bill within his regular bill paying process. Therefore, the bill simply does not get paid, even though the homeowner has the funds to pay the bill.

Seem unreasonable? How many people in the United States do not mail their taxes on April 15? Plenty! This deadline is not new, in fact, it is one of the most remembered dates during the calendar year. However, many Americans with ample means do not mail their taxes by the 15th of April, and fail to request an extension within the appropriate time frame. The truth is no one really knows why people who have means forget to pay their taxes, but enough do to add to the appeal of tax lien investing.

Some compare a tax lien to an insured bond or CD (with a higher rate of return), as long as the tax lien does not exceed the value of the property. This is because an investor usually will not lose his or her principal, and simply seeks the highest rate of return on his or her principal investment. The rate of return will vary by the maximum and minimum bid levels set by the state, and the results of the bidding process on the particular lien. If the lien is not redeemed by the property owner, the lienholder can then foreclose on the property.

Tax deed states operate very differently than tax lien states. Tax deed states actually sell the property, for an amount in excess of the back taxes owed. If, for example, a homeowner owes two years of back taxes at \$4000 per year on a \$250,000 house, the bidding would begin at \$8000. This home could feasibly be acquired for anywhere between \$8,000 and \$250,000. While acquiring a \$250,000 home for \$8,000 is theoretically possible, it is not likely. Also, like foreclosure sales, many tax deed states require full payment shortly after the auction, so the investor will need access to ample funds. This serves as an obstacle and will eliminate many would be investors in tax deeds.

It is our understanding that the best deals at tax deed sales tend to be with vacant lots. This is because it is much more likely that an owner decides he no longer wants to keep paying taxes on a vacant lot he is not using, than an actual home which gets a lot of use.

A third category of states are "Hybrid States", which essentially are deed states which allow the previous owner the right to reacquire his lost home. In a Hybrid State, the previous owner has the right to purchase back his home from the investor for the sale amount, administrative costs, and a penalty percentage that could reach up to 25% of the bid amount. It is highly unlikely the previous owner will come up with these funds so soon after he could not even manage to come up with the taxes, but it is a possibility.

Tax liens and tax deeds offer an investor an attractive potential return, but this form of acquiring properties is arguably among the more complicated methods. As we discuss below, be sure to do your homework before investing in tax liens and tax deeds!

Pros

Absolutely the most attractive aspect of this investing method is that tax lien and tax deed investing can be quite lucrative. The complex nature of tax liens and tax deeds eliminate a lot of novice investors who do not have the time, expertise, and patience to both learn the process and research the large number of properties that come up for auction. Additionally, if you find some smaller counties not frequented by institutional investors, you may find yourself with even fewer competitors. Accordingly, fewer investors bidding against you should lead to bigger profits.

In many cases with tax liens, you don't even come close to actually acquiring the physical property. For many investors who don't have the stomach for landlording headaches, this is the perfect buying method. It is sort of like investing in real estate without the properties.

Online auctions are becoming more popular, and this is opening up auctions to non-local residents. If this trend continues, you may be able to sit in your home or office and actively bid on properties thousands of miles away. Of course, you may want to employ the services of a local real estate professional to preview and assess any properties you intend to bid on.

Lastly, we liken tax liens to stocks with a "stop loss". It is real difficult to lose money on tax liens, as many states guarantee the principal and even a minimum return. It is easier to lose money, however, on tax deeds if you happen to purchase a property that costs you more money to maintain and dispose of than it is worth.

Cons

The complexity and learning curve of tax lien and tax deed investing may be more than you want to deal with. If you make a mistake during your learning phase you could end up with an unusable vacant lot or a dive property that costs you more to manage and dispose of than you spent to acquire it. Many of the best deals from tax deed sales are in vacant lots. However, a vacant lot is not always a “functional lot”, and it is not uncommon to find an oddly configured lot that has little or no value to it’s owner. The property you purchase through this process does not always have to be a “high end” property. However, you must be careful and know that there is commercial or residential value to the property in it’s existing or improved condition. If you are not sure of this, don’t buy the lien on the property.

Additionally, many institutional investors such as large banks are attracted to tax lien investing. These institutional investors come to some tax lien sales and purchase hundreds and even thousands of tax liens. This may frustrate the beginning investor, and you will need to either pick and choose properties the institutional investor does not bid on or find smaller communities where you are unlikely to find institutional investors. This may force investors to communities far from where they live, and ultimately this may turn out to be too inconvenient.

Time is another negative. Assuming you are careful and want to preview any property you bid on, this will take large amounts of time. As many as 50% of the homes set to go to auction are believed to be brought current just before the sale. This means you may preview ten homes 2-3 days before the sale, with only five of those homes actually being auctioned off. If an institutional investor comes in and buys all five of those homes, then you have just spent an awful lot of time with little to show for it. You will need to have flexibility of schedule to invest the time to properly research the properties you intend to bid on.

Our thoughts

To date we have not purchased a tax lien or tax deed. We are skeptical about “easy wealth” available via tax liens and tax deeds as told by some investors. Rarely is any type of investment vehicle so easy. Every investment vehicle carry’s with it risk, and the risk is generally a function of the potential return.

We also do not view this type of investing so much as a “real estate investment”. It is more analogous to investing in a stock or bond, hoping for the highest possible rate of return. The good news is that it is more like a stock or bond with a stop loss, as you are unlikely to lose substantial amounts of money investing in tax liens and deeds. The only real question is how much profit an investor can really make.

As noted much has been written about tax liens and tax deeds. “Profit by Investing in Real Estate Tax Liens”, by Larry Loftis (Dearborn Trade Publishing, 2005, \$19.95) offers the reader an easy to follow account of investing in tax liens and tax deeds. Mr. Loftis covers the differences well, and lays out for the reader which states are lien states, deed states, and hybrid states.

This buying method is arguably the most complex of the methods discussed in this book. Therefore, you will really need to do your homework before beginning to invest with it.

7

POUNGING THE PAVEMENT (AND MAKING TONS OF OFFERS)



7. POUNDING THE PAVEMENT (AND MAKING TONS OF OFFERS)

Overview

Many real estate investors have not utilized a sophisticated program to acquire real estate. They have relied simply on that trusted old fashioned formula:

hard work + hard work + hard work = results

Not a month goes by when we do not read a book or a real estate newsletter whereby another author or investor preaches the benefit of hard work and pounding the pavement. Many investors have made their fortunes using nothing more than hard work and perseverance. Getting a lot of offers out WILL EVENTUALLY produce results in most communities.

How does one go about the "pounding the pavement" method?

One way is to simply view and make many offers on the houses listed "for sale" in your community. However, because your offers will include an investor discount of 10-20%, most of them will not be accepted. You will also probably run into some real estate agents who get upset with you because they feel like you're wasting their time, and some homeowners who are offended by your perceived "lowball" offer.

That is why you may want to approach this method in another way. It actually can save you time, aggravation, and money. Put together a flyer or letter that introduces you as a real estate investor seeking to acquire residential properties. The flyer or letter should go to homes with for sale by owner signs in their yard, homes listed by agents, and even homes that do not have a sign in front (possible future listing). The flyer or letter should include:

- Introduction...who you are and what you are seeking to do (acquire residential real estate)
- Full contact information
- Key information points
- I can act quick
- I am prequalified or have cash financing
- I am fair
- Brief overview

The brief overview is important. No one wants to “give away” their home. If they view you as a shark preying on their anxiety over the pending marketing of their home, you will likely not get a call from them. What would a reasonable brief overview letter look like?

To: Homeowner in Pleasant Hills subdivision

“Hello, I am John Doe and I am an investor seeking to acquire residential real estate”. I am NOT seeking to steal your home from you, but rather am seeking win/win situations whereby I can make a “reasonable” return, and a homeowner can have a quick and painless sale of their home. If you are considering selling your home now or soon, please consider me as an alternative to the regular sale and listing process.

In general, what I am offering is simple. The following are some of the things you should be able to avoid if you work with me:

- **Fix Up Costs:** Most families spend anywhere from a couple thousand to tens of thousands of dollars fixing up their homes for sale.
- **Real Estate Commission:** If you choose to use a real estate agent, you will likely pay a 6-7% real estate commission that comes out of the retail value of your property.
- **Time to Show Home:** You will either need to schedule times to show your home, or schedule times to be away from your home when an agent shows it.
- **Negotiating and Discounting:** Generally there will be some negotiation with the buyer, and you may end up discounting your sales price.
- **Double Mortgage Costs:** There is often also some overlap between when you sell and when you move into your new home. Many homeowners are not able to perfectly match this up, and find that they have to pay a mortgage on two residences for some period of time when they are only living in one location at a time.
- **Stress Factor:** Many homes sit on the market for weeks or even months until they get a contract. This can be a very stressful time for a family, and may also lead to a reduction in the sales price.

All of the above can easily add up to 10% or more of the sales price. Plus, saving your time and stress certainly has significant value to you.

Our idea is simple. We come in and determine the retail value of the property, and we seek an investor discount of 10-20%, depending on the particular home. No multiple strangers coming into your home, no extensive marketing period, and no hassle. The best part is I am very flexible on purchase date, so we can time the purchase to match perfectly with when you ideally want to vacate the property.

If this sounds reasonable please call me. I am also happy to provide references that will confirm we are fair, quick, and seek mutually beneficial situations for both buyer and seller.

Thanks for your time.

Sincerely

John Doe
Future homeowner and investor
jd@bellsouth.net
487-972-2938

When contact is made you will need to assess the market value of the home, determine your investor discount, and make an offer to the homeowner. You will need to allow yourself a bit of wiggle room in your offer, as there will probably be some negotiations involved.

Pound the pavement every weekend, make tons of offers, and you will probably acquire some properties. The seller may not accept your offer initially, but may actually come back to you months later after frustration with the standard residential retail sales methods.

This method is the ultimate numbers game.

Pros

This method may be the best method if you are getting into investing with very limited finances. Some private sellers may be in a position to offer financing, which can minimize your net cash outlay when acquiring this property. Of course, this may come with a price, because they may demand a higher sales price in exchange for the favorable financing terms.

Many of the programs that advertise how to acquire properties with “no money down” are speaking of variations of the “pounding the pavement” method. This method is not very technical. As long as you can properly assess the market value of the homes you are looking at, you will only need some funds, time, patience, and a full tank of gas.

This method is one of the more common entry-level acquisition methods for first-time investors, although few use tools such as an introductory and brief overview letter which increase your return on your time investment. Many just get out and submit many offers without much of a plan, hoping to hit with a few of the offers.

Cons

In the “pros”, we discuss the ability to acquire a home sometimes with minimal cash outlay. This can also be a significant “con”.

A huge component of investing wisely is acquiring any residential real estate at a discount, what we refer to as “buying low”. There is nothing wrong with using terms to minimize your cash investment in any property. We did this as a standard operating procedure during our first five or six years. But if you are so cash poor that you cannot acquire a home unless you use creative financing terms, two things may happen that are cause for concern:

- you may sacrifice a significant portion of your investor discount in exchange for the favorable financing terms.
- you may leave yourself very exposed if things do not go according to your plan or if you have significant unexpected costs associated with the property.

We always maximized our available cash in our early years. But we NEVER sacrificed investor discount in exchange for favorable financing terms, and we always had a safety net of cash in case of significant unexpected expenses. Our advice is this: Be very CAREFUL when you sacrifice your investor discount margin for creative financing terms. Additionally, this method probably is the worse return on time and effort of any of the methods. For most of the homes you preview and make offers on, the homeowner has no real intention of accepting your offer. Not everyone can afford such a large time investment, and certainly not everyone has the patience to hear so many “nos” time after time after time.

Lastly, this method again exposes the investor to the “human element”. You should expect the homeowner to have an emotional attachment to the home, and he or she may view you as a shark preying on their most valuable possession. Additionally, real estate agents often don’t appreciate having to deal with perceived “lowball” offers.

Our thoughts

We do not use this method due to the tremendous time investment required and the significant human element.

Most real estate agents will tell you that you will often find a big difference in marketing efforts from agent to agent. Some agents put their heart and soul into each of their listings. Others pursue listings aggressively, and once secured, let the MLS or FMLS listing services do the bulk of the marketing efforts. This has been verified when we have talked with homeowners totally pleased with the marketing efforts of their agents, and others shocked at how little marketing the agent was doing on his or her own.

Once in the past, Andy used the “pounding the pavement” method for his primary residence. Andy wanted to live in a particular section of Atlanta, and it was uncommon to find a foreclosure in that area. Therefore, Andy drove around and introduced himself to homeowners that were already listing their homes for sale. Andy told the owners to call him if their listing agreement expired and they were not successful selling their home.

The first home he targeted went under contract two weeks before the listing agreement expired, and the second home was acquired days after the expiration of the homeowner’s listing agreement. That second home became Andy’s primary residence for over 10 years. The seller gave Andy the full benefit of the 7% real estate commission he was not paying, and another 4-5% for simple ease of transaction. In addition, the seller had just reduced the sales price on the property during the final 3 weeks of the listing agreement....not a bad deal at all. Even more, this was achievable in one of the absolute hottest sections of Atlanta.

One word of caution. If you approach a homeowner and his property is presently listed with an agent, you will obviously know he wants to sell his home. However, if you tender an offer or even discuss price during the period that the seller is listing his house with an agent, most listing agreements will require the seller to pay a real estate commission. This holds true even if the property is sold after expiration of the listing agreement. One way to try and ensure there are no misunderstandings later is tell the homeowner that you are interested but do not want to make an offer while the property is listed. Give him your card and/or introductory letter, and ask him to call you upon expiration of the listing agreement if he is not successful with the listing.

The bottom line with this method is that, if you can afford the time, it can be a good method for an investor. It also allows you to gain valuable experience and knowledge dealing with homeowners and real estate agents. This can come in real handy, if one day you deal with more sophisticated sellers such as REO agents, banks, auction houses, and mortgage companies.

Ten Ways to Buy Low



8 CORPORATE RELOCATIONS

8. CORPORATE RELOCATIONS

Today, when many executives are transferred from one city to another, the company either takes responsibility for selling the transferring employee's former home or offers to subsidize any loss the employee takes on the sale of her home. If the company takes responsibility for the sale, they often enlist the aid of selected real estate agents in the sale of the transferring employee's home.

The process of positioning yourself to purchase corporate relocations is virtually identical to post-foreclosures with one modification. It will be very difficult for an investor to contact larger companies directly. If you choose to try, we would recommend starting with the human resource department of large companies based in your city. However, you may find they are dealing more with corporate relocations of incoming employees rather than outgoing employees. In other words, they may be spending more time buying than selling homes.

The best time to contact a corporation directly is when you become aware of a significant, one-time transfer of employees. For example, you might read a newspaper article that says "Morrison Enterprises located in North Brunswick NJ announces plans to transfer their corporate headquarters to Palmetto, FL. President Warren Morrison is an avid sailor, and is tired of living in the cold northeast....so he is moving the entire company. Of the middle and senior executives, 50% are expected to leave the company, and 50% are expected to transfer to Florida". That would be roughly 250 families moving out of the North Brunswick area.

If you live in or near North Brunswick, you would quickly contact Morrison Enterprises and try to locate the person or department managing the terms and affairs of the transferring executives. As noted, we would recommend to begin with the human resources department. However, don't be surprised that, with a significant corporate transfer, there is a special team created to deal with the issues of the transferees.

In larger communities, just as you find specific agents which have a significant number of REO properties in their portfolios, you will also find a handful of agents who are corporate relocation specialists. Follow the steps suggested for introduction to agents for post-foreclosures (see method 3), and get out there and network until you develop strong relationships with some of these agents.

Pros

The pros are similar to those of post-foreclosures, especially if you develop a strong relationship with a key corporate relocation agent in a community. If you do, we suggest you focus on it.

Cons

The cons are also very similar to the cons listed in the post-foreclosure section. If your community is large enough to have one or two agents that handle a large number of corporate relocations, they will likely also be well networked among the investor community. Therefore, you will probably have a good bit of competition for properties, and you may be challenged to secure adequate investor margins.

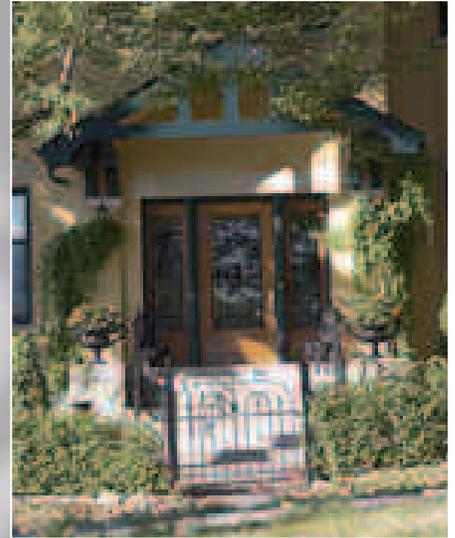
On the other hand, there is one significant difference from post-foreclosures. Every community has foreclosures, so it may be easier to find these REO agents. On the other hand, typically only major cities do significant corporate relocations, so it may be harder to find these corporate relocation agents.

Our thoughts

Just as with post-foreclosures, this is an excellent property source if your community is big enough to have agents known to carry corporate relocations within their portfolio. We have found one of these agents, and we have purchased some properties from her. This is not a huge source of discount properties for us, but it is still one we use from time to time.

Purchasing corporate relocations is a wonderful “complimentary” buying method. However, the available pool of properties will probably not be large enough for you to exclusively use to buy your homes at an appropriate investor discount.

Ten Ways to Buy Low



9 ESTATE SALES

9. ESTATE SALES

In warmer states popular among retirees such as Florida, Arizona, California, Texas, and Nevada, we have come across investors who have found a most creative spin on willed property. These investors scan the obituaries in the local paper, and research to determine whether the deceased was a property owner. The investors then track down the heirs of the deceased. Sometimes, these investors also network among estate attorneys that are privy to much of this information. Some attorneys pass on the contact information of the investor to the heirs, others are not so inclined to work with the investors.

Many families that are not local are distressed with the passing of their family member, and the absolute last thing they want to deal with is a time consuming and involved business issue, especially if it is in another state. What you would do is make the family a quick and painless offer on the home with a reasonable discount. For the right heirs, everyone wins. You get the home for a reasonable discount, and the family does not have to deal with the hassle and emotional distress of fixing up, listing, and marketing the home of a dear departed family member.

The contact with the heirs might go something like this: "Hello, I am Mark Schmid and I am a local real estate investor based in Miami Beach, FL. I am sorry to hear about the passing of your mother, Mrs. Jones. What I do is try to seek a win/win situation with out of town next of kin in your position".

Some investors have been known to advise the heirs that they will give the full tax value of the property. It may sound like a great deal, except that the heirs may not realize that the published tax values in many states are in no way representative of the fair market value of the properties, and are roughly 60-70% of the actual fair market value of the property.

When a property is inherited it is not uncommon that the recipient of the property is experiencing grief, discomfort, and various other types of emotional distress associated with the passing of the family member or close friend. Even though it was the intent of the departed, some family members also feel guilt when profiting at the expense of a deceased family member or friend. Given all these feelings, it is easy to understand why many who are willed real property are quite open to getting rid of the property as quickly as possible, even when this may mean sacrificing some of the value of the inherited property.

Some heirs may choose to simply sell all of the deceased belongings in an Estate Sale. The procedures for investors are virtually identical to the procedures noted above under auctions. Estate Auctions are not difficult to find, as most are advertised in the local papers and websites.

Pros

The main pros with this buying method is that it can be quite profitable. As stated above, often the heirs are not interested in profiting from the deceased, and simply want to quickly clean up the estate (sell off the property). Therefore, there may be an opportunity for a significant discount on the home.

Also, many retirees own their homes outright. So with no loan attached to the property, the investor may be able to secure some degree of owner-financing from the family or friend who has inherited the property. This of course makes this buying method more attractive to the cash-strapped investor.

Cons

The main con is that your state may not lend itself to a large volume of retirees, and hence the supply of homes and the market for this "service" may be rather limited. Also, it may feel a bit sleazy to you to track down the heirs of the recently deceased and then benefit from their grief. The "emotional element" of dealing with recently saddened heirs is also too much for some investors.

Our thoughts

We have never tried this method ourselves, but we know a few investors in Florida who have done quite well sourcing homes from heirs. We are told that a key aspect to this method is speed. You must make contact with the heirs quickly, while there are many emotions in play. If you wait too long, the pain of the loss and the emotional roller coaster may have eased up, and your offer may no longer be deemed so attractive. Therefore, as long as you are able to deal with contacting family and friends so soon after a loss, this can be a profitable and not overly technical method of acquiring discount real estate.

Ten Ways to Buy Low



10

**BULK INSTITUTIONAL
PURCHASING**

10. BULK INSTITUTIONAL PURCHASING

Overview

If you are one of those investors with access to a large amount of cash, this method may be for you.

The way this process works is that the investor approaches the REO department of a large or regional bank that regularly has foreclosures. The investor introduces herself to the REO manager responsible for properties in her target community. Lets assume the investor is targeting foreclosures in the greater St. Louis MO area, and Lily Rose is the REO manager in charge.

The investor offers sight unseen 60 cents on the appraised dollar to immediately acquire up to 10 properties in St. Louis. Lily Rose has too many properties in the bank's portfolio, and accepts the investor's offer. It is an easy way with minimal effort to purchase these 10 properties from the bank's portfolio.

In addition to having the financial resources if you are going to purchase properties in bulk, you cannot be as specific about the area and price range of the properties you are purchasing. You are acquiring properties for investor margin alone, with little regard to the specific attributes of each individual property.

Pros

Today, with the large numbers of foreclosures, banks and mortgage companies that make their livelihood loaning money often find themselves with portfolios of hundreds of properties that they need to dispose of. Within these banks and mortgage companies, REO managers manage the marketing of these properties. It is not uncommon that an REO manager may find himself with a large number of properties in his portfolio, and then be instructed by his superiors to reduce the bank's portfolio of properties within a short time. This is where bulk institutional investors come in.

The primary benefit of bulk institutional purchasing is investor margin. The investor is making herself very attractive to the bank as a means of unloading property with no real estate commission and no holding costs. It is unlikely the investor will be able to do this when purchasing just one or two properties, but there is certainly no harm in trying. Generally, an investor will need to make the offer of such a significant size (volume of properties) that the investor is able to attract the attention and interest of the REO manager.

Purchasing multiple properties at any one time can be VERY lucrative. If you have the means to do this, you can better position yourself for bigger investor discounts, which generally translates into bigger profits.

Cons

The main con is that you will need lots of cash or a huge line of credit. Not only will you need the funds to acquire multiple properties, you will need the funds to complete the necessary repairs and improvements to each property, and the funds to cover the holding costs until the properties are sold, leased, or refinanced.

If available cash is not a problem, then you will probably have two significant issues. The first will be the need for the repair and improvement resources for multiple properties in a given period. The second will be a marketing plan for all these properties.

We have two contractors that get the bulk of our work, and we have never been in a situation where at any one time we had needs that exceeded their abilities. If you acquire 5 or 10 properties at the same time that all need some degree of repairs and improvements, you will need a larger team of contractors to handle the large volume of properties. One option is to let properties sit until your contractor is available to work on them, but that only adds to your holding costs on the properties you will not be working on immediately.

You will also need pre-established marketing plans for the different range of properties you might acquire. For example, lease/purchases are most effective for middle income neighborhoods. In a market where middle income homes sell for \$100,000 - \$200,000, you will need a plan for homes you might acquire that retail for less than \$100,000 and more than \$200,000. Perhaps you sell the low end properties to another investor who deals in low end rentals, you market the middle income properties using the "buy low, rent smart, sell high" lease/purchase program, and you flip the higher end properties for immediate gain. This is just an example. However, the key point is that, if you acquire properties in bulk that have varied retail market values, then you must have an established plan for the marketing of each range of property values.

Our thoughts

If you aspire to one day be a full time real estate investor, then being in a position to purchase properties in bulk is a wonderful goal for any beginning investor. The reality is that very few investors begin with the means to purchase in such quantities. Therefore, this is not a realistic method to most investors starting out in real estate (it is actually not even realistic for most established investors).

If you are starting out investing and you have ample financial resources to purchase in bulk quantities, then we highly recommend that you still begin purchasing in smaller quantities until you learn the ropes of the business. This is why we list this as number ten in our list of Ten Ways to Buy Low.

IV. CONCLUSION

There are dozens of other methods for buying discount residential real estate. Our intent was only to summarize for our readers some of the most common methods. Hopefully, this has helped you see the differences among many different buying methods. In reading this book, hopefully you have found that one or more of these methods appear as a nice match for you.

We will close with one key observation that we hope will prove valuable in your real estate investing. There are a number of variables responsible for our success. At or close to the top has been our ability to FOCUS and SPECIALIZE. We have used a variety of buying methods over the years, but over 85% of our properties have been purchased via our preferred method...post-foreclosures.

This does not mean that this is the right or best method for all of our readers. What we are saying is that a key component of our success has been that we have picked a method, studied it, perfected it, and profited from it. We have not tried to spread ourselves too thin, choosing instead to learn a method and perfect a program that we can now do blindfolded.

We offer the same suggestion to our readers. Before you try to purchase one or two properties using a variety of buying methods, try to purchase ten properties using one method. You will likely find that your proficiency and confidence will grow with each purchase, and your profits should grow proportionally.

This book was intended to be a valuable supplement to our book "Buy Low, Rent Smart, Sell High". For readers who have read that book, hopefully this book has provided you additional and useful information for the "buying low" portion of our program.

Finally, do not lose sight of the important point that "buying low" is only one key component of any real estate investment formula. You will still need to have a specific plan in place for what to do with the investment home once you have purchased it. If you do not emulate the program laid out in our book "Buy Low, Rent Smart, Sell High", be sure to have another reasonable and thorough program in place for the rental and/or sale of the home that you have just BOUGHT LOW.

Best of Luck

Scott and Andy