

Subject Line - A Sacred History of Making Offers to Sellers

How to make the “perfect” offer on a property is one of the most asked questions by investors. They don’t have to be newbie’s, seasoned pros are always wrestling with tweaking their offers so they don’t lose money on a deal.

Here are a few methods that I have used for many years and at different times in my real estate investing – this isn’t going to be about the “good-old-days” so stick with reading it for some insights of the past, present and the future.

In the early 1970’s and through the 1980’s I thought I had control of Planet Earth as I made offers that consistently made me money and that I had no problem getting a seller to accept. It was really simple, whenever a seller responded to my advertising I would make an appointment for the same day and preferably within a few hours. I would get the Tax Assessed Value (“TAV”) on the Property Appraiser’s website, or in the early days by calling. As an example, let’s assume the TAV was \$100,000 for a fictitious property.

I would make a presentation to the seller, first finding out how motivated he was. If he was truly motivated or had the property listed for months and months, I pretty much had a deal if I offered him 65% - 70% of the Assessed Value assuming there were minimal repairs. This way I let the Property Appraiser do the work for me. Remember in those days, property values changed very little and a 3% gain one year was offset by a 4% loss in a following year. To say the market was flat was an understatement!

There were always deals but you had to buy “right”, clean them up slightly and sell them at 10% under TAV. So for the \$100,000 TAV deal above, you would have paid \$70,000+/- and sold it for \$90,000. There were no appraisal issues, but financing a mortgage was expensive – up to 14% at their peak! In the 1970’s all mortgages could be assumed without the buyer even qualifying – was that easy or not?

In the mid-1980’s to early 1990’s a couple of real estate gurus started teaching “How to buy houses with no money” and they started a wave of “subject to” and owner financing deals. The result was a slow but steady increase in SFH prices and my old ratio of 70% didn’t work anymore. I had to pay more and more until one day I remember saying to myself “I’ll never pay more than 100%!” At the very same time I was saying to myself “I’ll never pay 89 cents for a gallon of gas!” – I’ll just wait till it comes down. Needless to say, things changed, no one cared what I would or wouldn’t do, and I learned to expect the unexpected.

When the late 1990’s and early 2000’s snuck in, I found myself paying 150% to 200% or more, of TAV! Things had gone berserk but I didn’t care because I was still making money on every deal. I was riding a tornado and couldn’t lose money

on any deal. In fact, the major issue was buying the properties because it had turned into a Seller's Market. In mid-2005 and 2006 I had an ugly feeling that we were looking at the same type of speculative markets I had seen so many times as a stockbroker for 22 years. I just couldn't see neighborhoods that had sold for \$75,000 a few years before becoming \$275,000 neighborhoods simply because of cheap mortgage money. Anyway, I got out and sold everything I had except for partnering on a few deals with students in 2007.

Now when I look at TAV I see it changing from last year but I can now buy properties at 10% to 30% of TAV! One thing to learn here is not to trust TAV as a guideline for anything except paying taxes – and that can be changed by appealing the taxes. In the late 1990's and early 2000's people were moving into Florida at the rate of 1,000 a day, in the past 1 ½ years this has changed to 50 a day leaving South Florida.

Having given you a historical tour of some of my personal investment practices, let's look at what is working, or not working, in today's market. Because of the amount of distressed properties (pre-foreclosures and REOs) it is difficult to determine a real market value ("RMV") – I developed this term if you haven't seen it before. This is the actual price you can sell a property to a retail buyer in a reasonable time - 30 to 60 - days on the market ("DOMs"). We see DOMs of 250 to 850+ days, but these people are simply living in the past (2+ years ago).

Single Family Homes ("SFH's") are mostly selling at distressed values if they need any repairs. The disparity is that SFH's that are ready to move into are selling at premiums. That's the good news, the bad news is that appraisals are too low for the financing requirements and the lenders aren't willing to lend to almost anyone except the Governor of Florida – and they aren't really sure about him. So being a rehabber at this time in the market is very rewarding if you can get an end buyer who qualifies for a loan, and your property appraises high enough for the end buyer to get a loan.

Well then, how do you buy properties without worrying about overpaying and getting stuck? As a guideline that is standard in the industry, if you can purchase a property at 70% of its RMV, less repairs, carrying costs (taxes, insurance, utilities, etc.), double closing costs, etc. you should be able to make a profit on most deals. The trick is to accurately determine RMV especially if you are still in a falling market. Next you must accurately determine the repair costs for a do-it-yourself ("DIY") and contractor estimate. And finally you must put the above info together with an offer that uses little or no cash.

My method of determining these repair costs has been simplified because I developed my own software to standardize the DIY and contractor repair costs. On the need for an accurate RMV, you can automate this process but one of the best ways is still to drive the neighborhood and call every FSBO (For Sale By Owner) and listed property, then negotiate hard for the lowest price you can get

as a cash buyer. The FSBO's are your real competition because they aren't paying a realtor's commission and are often more motivated because they can't wait for tons of days for the MLS® to get a buyer. This driving the neighborhood can't be done by you alone if you are doing 10 – 20 deals a month but if you are just starting, it will work and get you other deals that you wouldn't have found on the MLS®, Craig's List, or by direct mailings. We use the online comp service (www.XimaUSA.com in Florida) and there are a number available across the country. If you decide to sign up for XimaUSA, use the discount code BREIA to get a substantial savings. For doing repair costs we use www.ExcelRESoftware.com for the DIY and contractor estimates and to also generate the exact offers to sellers – all in one easy operation.

What about the fabled REO market? Mostly realtors are saying they are “getting 5 - 10 offers on each listing and they are selling at full list price or higher”. What we see is a small group of investors literally sitting in a few “boiler rooms” making incessant offers on every REO when it is first listed. This causes the fervor some realtors are seeing but not that many close causing realtors to blame all investors for the problem.

I would like to remind the sensible realtors that when you are selling your REOs, only an investor will buy them 99% of the time, so grin and bear with us for we are your salvation. Many realtors “get this” and have found working with investors to be very rewarding, especially when some are taking a buyer's commission along with their seller's commission. They also have come to trust these continuous buyers because they actually close on their offers. Investors close on the REO's for one of two reasons. First, their buyers list can accommodate the re-sales of these REOs so they make a quick profit, and secondly, they may be purchasing these properties for themselves to rehab and sell to retail or to rent.

What is distressing is seeing properties close at lower prices than other offerings that were made to the agent. This is getting to be more common all the time and truly needs serious investigation. If anyone reading this needs any examples, just drop me an email. If it has happened to someone reading this email, just drop me an email with the info and I'll see what can be done.

The selling agent always makes his commission so why wouldn't he get the highest possible price for the Asset Manager? In the bigger picture, the money that doesn't go back to the lender is being repaid by American taxpayers – including the realtor that didn't accept the highest offer. I am not going to get any higher on my soapbox today, but just want to say that being the old man I am, I have learned that everything we do has consequences, some good some ugly.

For those realtors who think REO's can't stop and you rule Planet Earth, I felt the same way with 89 cent gas. If you think you are making money hand-over-foot,

you should come over to our investor side and partner with us to see what you are really capable of making.

To your limitless success,
Dave Dinkel