

Subject Line – Who Cares What it Costs? Oink, Oink.

I am having trouble keeping up with the faxed offers on a specific property we purchased that shows in the public record that we paid \$15,000 for it. The offers that have come in, without calling or asking us first, have been between \$29,900 and about \$49,900. Doesn't seem bad for a quick profit, right? We also had a deluge of phone calls, one caller called me a nasty name when I responded to her request for "What are you asking?" question when I said "\$79,900". Oink, Oink...

These people seem to all have some things in common - they did their homework online at the Tax Appraiser's Office and saw what we paid – "Or did we really pay \$15,000?" Let's look more closely at what really happened and what you can learn from it. Based on this ½ thinking, we should all offer the REO Asset Managers ½ of the \$100 they paid to get the property back at the auction – stupid isn't it? Yet plenty of gurus teach to just make 50% offers on the listed prices on the MLS® and you will get deals. Not surprisingly, this is true – it is just a matter of time and patience and can you sell them later?

The reality of this \$15,000 transaction is we contacted the seller one year ago and he told us he wouldn't accept less than \$100,000. We went to see the property instantly because the comps for lake-front properties in the area were in the \$250,000 to \$300,000 range. The property was a 4 bedroom 2 bath with its own boat ramp. The kitchen was small but had to be replaced along with updating both bathrooms and a new roof. Generally, the property was in terrible condition, dirty and full of junk – that's the good news. The bad news was the owner had started to rehab it while living there and demolished the interior, but he hadn't started any rehabbing in eight years!

The seller explained that he had other offers and when I asked how much they were he said the highest was \$60,000 (probably a lie). So that became an upper limit to start the negotiation. He went on to say that his father was actually the owner of the property and he died in 1988, so his Mom inherited the property and she died in 1990. He and his brother were the surviving beneficiaries but his brother had died in 2000 so his brother's three children inherited his brother's half. His brother has been divorced around the same time he died so this could have been another beneficiary in the mix! To add to the issues, he hadn't paid property taxes in four years. Sounds like a deal – if the price is right and you have time to fix the title and property tax issues.

So we had two sets of issues – the condition of the property and the legal issues attached. In the final analysis we discussed with the homeowner the ramifications of the triple probate and the urgency to get the taxes paid so a tax deed sale didn't take his house, and the property was otherwise free and clear (no mortgage or liens against it). We worked backwards from the \$60,000 previous offer he had and came to a "Net

to You” number of \$15,000. Whatever the total of the above costs, we would net him \$15,000 at the closing by paying all closing costs and associated legal fees and taxes due. He would have to split that with his brother’s children so at the closing he would walk away with \$7,500 and that would be it.

NOTE – this method of “Net to the Seller” is a very powerful way of getting deals and most sellers think the net figure despite what they say about gross price.

He agreed and after months of exchanging necessary documents with him and his brother’s children, the probates were completed. If it can be said that there was a lucky aspect to the probates, it was that all three deaths had been in the same state – Florida.

Had they been in different states, it could have been disastrous and more expensive just to get it done. I think the pictures of the property we sent the children sealed the deal – they had no idea their uncle was living in such squalor – and by choice. One week before going to the closing we weren’t exactly sure what our cost would be – no Good Faith Estimates here. The bottom line was that the additional costs for the three probates and four years of back taxes was \$31,614, so our actual cost on the property was $\$15,000 + \$31,614 = \$46,600+$.

In the interim the property values in the neighborhood had dropped and even the ones on this lake. As we reviewed the new values we decided an after repaired value of between \$180,000 and \$225,000 – depending on the amount of rehab that was done. The estimated rehab costs ranged from \$32,500 to \$46,800 which still allows for a nifty profit to a rehabber who sells to an end buyer. So you don’t have to do the math – that’s a potential profit of somewhere between \$50,000 and \$115,000. How much profit do you need? Oink, Oink.

The callers seem to have lost track of this property being lake-front and a 4 bedroom, 2 baths versus all the 3/2’s in the neighborhood. It has its own boat ramp and a cement party area on the water, and it’s a beautiful lake with boat traffic. Are all these perspective buyers only looking to purchase it to flip to another investor, are they too new to understand the profit picture, just making offers to make offers, or in that one case – just rude because they didn’t get their way? Don’t know, don’t care, as we will probably rehab it ourselves and keep the bigger spread. Real estate is interesting.

Why does pricing in the public record matter? If you use public records info as a guideline to decide what you should be paying because of what someone else paid for the same property, you will not get many deals. A common trait of newbie investors is to make a decision on the value of a property by what the previous investor paid, not the real after repaired value. Even knowing the property is a deal at the investor’s asking price, the newbie doesn’t buy it because of someone else making “too large” a profit. I

estimate that billions and billions of dollars of profits have been lost to newbies, but made by more seasoned pros that only care about the end result.

As an alternative to this public record value issue, I suggest you put a “realistic” number on the P & S Agreement – for the above transaction say \$55,000 but include an Addendum that stipulates the seller will net \$15,000 at closing after all costs and expenses. This instills more confidence in the seller that he is not giving the property away, and that he will get paid his \$15,000 at the closing. In the above case, we still would have brought \$46,000 to the closing but there would have been a Seller’s concession on the HUD-1 for the difference. In the public record the Gross Sales Price would have been \$55,000, and yes we would have had to pay a few dollars more for the transfer stamps and title policy – so what?

Oink, Oink.

To your limitless success,

Dave Dinkel