

10-7-2009

Such a Deal -Life on a Beach!

There is seemingly a common thread that stops new investors before they get started and sometimes stops completely experienced investors by killing their careers.

What I am going to say next may be so obvious you may think I must have lost my mind, but here goes – “There has to be enough equity in a deal to make a profit” and “The seller has to be motivated to make a deal work”. I preach to my students that every deal needs three parts to make it successful – a motivated seller, equity in the deal or terms that make it profitable. I can hear the crowd rumbling about “creating equity” by using short sales and they are right, except I prefer low hanging fruit not tree toppers that are mixed with high voltage electric lines – just my opinion.

And I can hear the true believers who proclaim “I complete 87% of my short sales!” I believe that, and I feel very sorry for the buyers who overpaid for the shorts because you wanted to keep your success ratio in tack. Instead of offering 80% of the BPO, try offering 45% and see what your success ratio is. No fight here, if they are working for the buyers who are buying them – great. If they are retail buyers – great! I like low hanging fruit, or as I call them easy “profits”.

Having said that let's look at what goes wrong for so many investors. If the first parameter is what is enough equity, then how do we determine this? This answer obviously depends on the value of the property, but let's say you pick a percent return (this is what some people do) of 20%. So on a \$20,000 property you are looking at \$4,000 and at a \$300,000 property the profit expectation is \$60,000.

That's simple, however, life is not always so simple and using a percentage guideline could stifle a much larger profit or more often, kill a deal because there is not enough profit to cover your expenses. The real answer is to make as much as possible on every deal – stop only when you cannot find a buyer and then back off.

Forget the term “He's a pig” that other investors may call you, because they won't buy it if they don't believe they would make money. Do you think I should reduce my price because he said “I want to keep this one for myself, what will you sell it for to me?”

Just recently, this actual line was used by a partner in a local investment club on a deal he wanted from us. He pleaded for a lower price but we declined, so next

we got “I want to rehab it and live in it – help me out!” But that still didn’t work and he paid our “pig” price. When we came to closing he came to pick up his check because he had flipped it for \$10,000 to another investor!

Recently, a wannabe investor called me very excited after he got wind of a deal from a realtor. A homeowner in Naples was thinking of selling his townhouse that was on the golf course. Similar townhouses had sold for \$750,000 to \$850,000 according to the realtor. The realtor was trying to get the property for \$450,000 and flip it for \$650,000 to \$700,000. After all, who wouldn’t take a \$150,000 plus profit? He was very excited and I am sure I didn’t damper the wannabe investor’s enthusiasm when I asked for the comparable sales in the community.

The realtor obliged by sending all 15 sales dating back to 2006, yes 2006! I explained that the last sale in the development was in early 2008 and it might take 1 ½ years to sell it – the newbie wasn’t bothered; after all he was looking at a nifty profit and it wasn’t his money that would be buying the property. The realtor did not send open active listings which I suspect would have been in the \$300,000 - \$400,000 area and probably listed for over a year.

The realtor was insistent that the townhouse could be sold for \$750,000 and all she wanted was her commissions (buy and sell sides). I explained to the newbie the prospect of extended carrying costs, declining market values, how much I hate HOA’s (Home Owners Associations) and the major fact that the seller wasn’t really motivated or he would have considered owner financing or an option agreement.

I told the wannabe student that it was not a deal for us or him as I saw it. He probably went away very upset with me even after I gave him alternatives of doing an Option Contract, owner financing, and other techniques that he didn’t believe the seller would accept. So I told him that it was not a deal as far as I was concerned. The newbie hasn’t called since but here is a situation with possible equity but no motivation and no terms.

I was given another killer opportunity by a poker buddy who is probably reading this, but anyway one night at his no-hold’em poker game he mentioned that a friend has a trailer in Briny Breezes and was willing to sell it for \$450,000 – that’s right Four Hundred Fifty THOUSAND Dollars and No Cents for a 10’ x 30’ TRAILER!

It seems a mysterious developer (rumored to be a guy named Trump) had made a \$1,000,000 offer for the mobile home lots in this park because they were both ocean and intercoastal waterfront. To add gasoline to the fire, this offer was generally public knowledge (I hadn’t heard it) and the news had even been featured in the national and local news for weeks.

The average trailer in the park was possibly worth \$15,000 with a few new ones at maybe \$50,000 – a long way from \$1,000,000. As might be expected a few diehards didn't want to sell and were threatening legal action so the purchase dragged on and on. At the same time the economy was weakening and the developers had finally had enough and never completed the deal. Had I decided to pay \$450,000 for the \$1,000,000 sure thing, I would be living in a 10' x 30', 30 year old trailer very near a beach in Florida – probably without my wife as she would have had me declared insane. Somehow, I don't think that's what I have in mind with the rest of my life.

The point to both these “deals” is that they weren't deals but dreams in the minds of the potential buyers. I can guarantee if the realtor in the first case had been asked to put in her own money (\$450,000) you would have heard “I don't have any” and the reason is probably she only does riskless commission transactions.

In the trailer situation, the equity wasn't even really there – just a speculation. Yes, you had motivated sellers but they didn't control their destiny – an outside force (Trump?) did and the economy killed the buyer's motivation. And why would one of the trailer owners give terms when all he had to do was wait for his money? Well, Nan is still married to me, she hasn't asked for a sanity hearing, and I can go to the beach anytime I want for a couple of bucks. Life is great!

To your limitless success,

Dave Dinkel

P.S. - Just a quick “Life Observation” - I was looking at comparable sales in a neighborhood and noticed a property that had been listed on the MLS® (Multiple Listing Service) for 846 days. What is this person thinking? I equate this type of person (Asset Manager) to someone who would rather be “right than happy”. If he can't have his way he will suffer and suffer until he is right, which most often is never. This Asset Manager gets paid a cushy salary for making this kind of decision?

As a stock broker for years, I had clients that had to get another ¼ point out of a stock before they sold it or had to wait an extra month to reduce their taxes on the gain they had in hand. Inevitably they would lose all their profits and finally take losses on margin calls because they wanted to be right rather than happy. The readers who don't get this probably will when it slaps them in the face and costs them big money in their lives. Would you rather be “happy or right?” – you decide and if you have to think about it for more than five seconds, you have answered the question.

