

Wednesday Minute – Look at What Changed in the Wholesale Market

The wholesale real estate market has changed dramatically over the last few years. Originally, wholesaling simply meant buying from homeowners who were in distressed situations and flipping them to other investors who would rehab and resell them to the retail market. However, it was not uncommon to find and “flip” a commercial property or high-end homes.

Some of the past real estate cycles we have seen are the wholesaling of commercial properties and single family homes by the Federal Government when the Savings and Loan Crisis took place in the 1980's. Another common Federal Government wholesale that lasted a few years were the HUD properties that initially were sold to anyone, later to just homeowners who would live in these properties and even later, both to homeowners and investors.

Conventional lenders, mostly banks, started holding foreclosures in the rising markets in the Southeast and Southwest and literally played the market for a few years and even financed investors with short-term, usually one-year loans at 7% - 9% while these properties were rehabbed and resold. Most of these lenders have now merged or gone out of business.

Throughout this history of lending institutions and governmental agencies “wholesaling” properties to investors and homeowners, investors have made a substantial part of their profits from buying low and selling only slightly higher, averaging profits in the range of a few thousand to tens of thousands of dollars. Many national gurus pushed the idea that it was better to take any profit and make money than rehab and run the risk of running out of money. These same gurus suggested that to be fair to the rehabbers who were their buyers, the profits (spread) should be a few thousand dollars.

In the wild days of the early 2000's, these wholesale profit spreads expanded with the result the homeowner or end buyer had to pay more and more for a single family home. Investors shifted their sights to condos which lagged the market's move for years. As investors bought and sold condos higher and higher, it caught the attention of developers who jumped on the “free” money financing for buyers. I don't have to say much more about what the condo market did and has done since, but everyone other than those that got out very early had been net losers.

The last two months in our tri-county area, over 9,000 properties were sold and almost 25% were REO's (Real Estate Owned) properties that lenders had foreclosed and were resold mostly to investors. This represents the beginning of a change in the cycle of the wholesale market because no longer does an investor have to approach a homeowner to get a good to great deal, now he can just wait for a lender to foreclose and put the property on the market. Ironically, the sale price of the REO is almost always less than what a lender could have made by doing a short sale!

Another difference is that under Florida's new "Anti-investor" legislation, REO's are not a factor while every foreclosure has the chance for huge fines and possible jail time if the seller is not properly disclosed. Another change that occurred in the new "Anti-investor" legislation is that "Subject To" deals and reinstatement of the late payments is illegal and subject to a \$15,000 fine.

With an REO, the investor can put it under contract and try to quickly find a "wholesale-investor" buyer, but will lose his deposit and get blacklisted if he can't close. But I have been told that a new "wrinkle" will be coming to the REO market, that being commercial lenders that foreclosed the properties will do investor financing of these sales. This is a radical departure for the lenders and it will allow many of their REO's to be sold in a more competitive fashion because more investors will have access to funding.

The bailout by the Fed will change the issue of the REO's and future foreclosures and the exact result may not be seen for months. However, the issue is that as an investor, you may be violating Florida law even while you are trying to do what is best for the homeowner and the same things you have done for years. BE CAREFUL!!!!

If you decide to buy an REO here are some tips:

- 1.) The asking price is negotiable because the property has probably been on the market at a higher price with incremental reductions for some time
- 2.) Have local code enforcement inspect the property and get the lender to lower the price you have already contracted for. Yes, you can re-negotiate the contract or even cancel it if there is a significant deficiency that was undisclosed to you at the signing of your contract. Often the agent for the property doesn't know this because there isn't an open violation or lien against the property in the public records.
- 3.) Bolder lenders put new REO's on the market at prices that are well below what they expect to sell them for to create an investor frenzy
- 4.) You will have to accept the lender's contract even though it will contain clauses that are likely illegal in Florida.
- 5.) The lender will not accept an assignment clause so you will have to have money for a double closing unless the buyer's hard money lender will fund the deal and put your fee on the HUD-1.
- 6.) The agent with the listing is the only one to make an offer to because he will accept a lower offer for the full commission rather than accept a higher price for a half commission from your realtor. (I already see the emails coming in on this comment – but I have personal experience in this lesson too often!)
- 7.) The agent risks his career by telling you what to bid to get the property and you should be suspect that what he is telling you may be misleading (no a lie) about what price will win. Yes, this has happened to me also because I saw what the property traded for in the public records later and it was significantly below what he said I needed to win- in that sense he was correct, I just would have had to pay more than the property was worth to get it. Another investor got it for a much lower price because he wouldn't budge and I wouldn't offer the "full price" the agent wanted.

- 8.) The current REO market is a bonanza for realtors who have the connections with the lenders, so much so that the lenders are starting to reduce the listing agent's commissions from 5% to 4% and in a few cases 3%. The best way for an agent to make "windfall" commissions is to get these foreclosed properties under contract before the foreclosure sale as often the lender will honor this original contract through the REO sale but will reduce the payout before the closing.

In summary, the real estate market is constantly changing and will always be a gold mine for investors who have the fortitude and understanding of the trends and do deals with as little money at risk as possible.

To your limitless success,
Dave Dinkel
Exec. VP BREIA

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www.FSBOAutopilot.com (For Sale by Owner Professional selling system to sell any home in one weekend)
www.StopMyForeclosureMess.com (32 Ways to Instantly Stop Foreclosure)