11-9-2011 Insight
Short Sales are Not for Sissies

I received a call from a student who asked if I would put in an offer on a short sale she was attempting. I said “yes” and checked to see what the comparables were in the area. This short sale and the offer I made were in January of this year. This property would have sold in the low $400k’s just five years ago. It is located in a very nice neighborhood and I went out to see it to check out its condition.

The family living in the property was renting it from the actual homeowner who had moved out of state. With a tenant or a homeowner living in the property, it makes it more difficult to show to a prospective buyer versus it being on a lock box. We overcome this by getting all the prospects for the property at one appointment time on a specific day. It creates an urgency but also makes it easier for the people living in the property.

The property had a new barrel tile roof that cost the homeowner $26,000. It had a stained ceiling from before the roof was replaced and it needed some minor patching, painting and the kitchen and bathrooms replaced. I estimated the repairs at $20,000 to do a really nice job. The garage was detached and was in good shape so no surprises there either. All in all, the property was ready to be rehabbed and retailed for the right person.

The student and agent listed the property at $189,000 and asked me what I wanted to offer. When I said $125,000 I could hear a gasp from her end of the phone. I sent her a contract and she proceeded to work on it. I didn’t hear anything for three months and then I got a call that simply said my offer had been rejected. That’s better than getting approved because I would have offered too much.

When I put the offer in the comparable closed sales were strong in the $225,000 - $250,000 but these sales were months old and no recent ones were available. I checked the comps again as soon as she called and the same comps were there and no new ones had been added. Having seen the property, knowing the area and how nice it was, I raised my offer to $135,000.

It was almost another three months until I heard from the student/agent with the news the loss mitigation rep had accepted my offer of $135,000. I immediately checked the comps and the same ones were there and no new ones showed up. The impression was that the neighborhood just didn’t have any sale – which is partially why I had made the original offer.

My inspection period was for 15 days after the lender’s approval of the short sale and a closing 30 days after this same approval. We started to market the property and set a single appointment time for the prospective buyers to come to look at it. All seemed to be going well with 4 – 6 interested buyers at our wholesale price of $179,000. One buyer took his contractor by twice so we felt pretty good about selling it. We had the usual offers in the $110,000 to $130,000 area but we expect these. I suspect if we ever said “yes” to these guys they would pass out!

It seemed to me that we had too many people looking at it to not have had an offer or a taker at our offering price. I re-checked the comparables just to see what else had traded in the area. I was immediately shocked to see three new comparables from $140,000 to $179,000! This meant that our offering price of $179,000 was way too high and needed to be reduced.

With the repair costs estimated even higher than $20,000 by the prospective buyers, I would have had to reduce our offering price to what we were going to pay or less. That wouldn’t work so I cancelled my offer during the inspection period. I am sure the student/agent was “disappointed” at least but we can’t take chances on buying and holding. This is a prime example of what happened to a nice property in a nice neighborhood in just 6 months.

Had the loss mitigation rep from the lender made his/her mind up in three or even four months, we would have had a buyer based on the same comparables I had seen originally. We would have bought and sold, the bank would have completed the sale, agent would have been paid and the homeowner out of the problem – essentially a win-win for everyone. Instead, the approval took six months and the sales in the area dropped and no one was a winner.

When an agent does these short sales for investors, he/she has the chance to sell the property to a retail buyer who may have seen the short sale listing so it shouldn’t be a total loss to the listing agent. I actually liked this property so much that I was seriously thinking of closing on it and rehabbing it. The numbers worked - $135,000 plus $25,000 for repairs and closing costs for a total of $155,000 invested. Selling it at full market value (FMV) of say $240,000 there was a profit spread of $85,000. However, with the new comparables in at the much lower prices, I could have had difficulty getting $179,000.

I guess the lesson here is that the market can change when you have to wait months for an approval of a short sale. Interestingly, the result is that short sales in many instances are selling for a greater discount thoanREO (bank-owned) properties.

Make sure when you finally get a short sale approval that the property is in the same condition as you originally saw it and that the market hasn’t changed. As much as I liked this property, I wouldn’t take a chance on getting money stuck in the property that I could be using elsewhere and turning more frequently.

To your limitless success,

Dave Dinkel