

## Why Are so Many Investors Being Burned Alive?

I read it all the time in the publications, “Investors get burned buying foreclosures at the auction” or “Investors get burned buying tax deeds”. Both of these bargain basement methods of buying properties can cause the darkest of greed to come out of people. This greed blinds their common sense and they literally throw all sanity out the window.

I remember when Miami-Dade went online with their foreclosure auctions and a man from out-of-state purchased an ocean-view condo for a mere \$9,500 – or so he thought. He didn’t do any title investigation and couldn’t see that the foreclosure he was bidding on was for condo association fees that were unpaid.

The association foreclosed on their overdue association dues and fees, but allowed the first mortgage of \$250,000 to stay in place. They would have become the deeded owners of the property and could have rented the unit – as many condo associations have been doing, but chose to allow a gullible individual to purchase it. They were cashed out but the first mortgage was still attached to the property. So much for a good deal in the condo market....

If you don’t know already, I love condos about as much as grabbing a burning hot pot handle, a third degree sunburn, food poisoning or a bad car accident. You can get over all these, but it is always a painful learning experience. I can hear the tiny voices crying out, “But I make money on buying condos cheap and renting them.” Then I listen to the massive, ear-shattering stadium-roaring crowd chanting, “I hate condos because I eventually have to deal with the Association’s Board!” Each to his own, I prefer low-hanging fruit.

The key to bidding on properties at the foreclosure auction is to do the title work, or more precisely, have someone who knows what they are doing, do it for you. The real pros subscribe to the same service that closing agents use except the results can’t be certified for issuance of a title policy. Learning how to understand the results of the search and the severity of the liabilities against the property and its title defects, liens or judgments are best left to one who does it regularly.

The unfortunate issue is that the foreclosure process itself can easily be flawed and the only way to determine this is to check from the original service of the defendant (the Mortgagor) as to whether it was done properly, through the certification of the mortgage docs and to the foreclosure auction. Any of the above “glitches” can eventually be fixed through further legal action(s) – expensive but fixable.

I had a recent caller ask me for a referral to someone who could do some title searches for him. I have a number of attorneys who would gladly do the work. I asked what he wanted to pay and he said he had been paying \$5.00 a search

but he lost that person and the new person wanted \$12.00 each. I am sure these title researchers are nice people, but they are under-pricing themselves – a lot! Well, actually, it depends on what the investor was getting for his money. Be careful of getting title searches so cheap – you may be getting a full-blown loss of your investment. Why? Because it may be cheaper to walk away than fight to get into financial problems where your name is attached to other properties you own in the public record.

The tax deed auctions are somewhat different because the county is required to contact all parties to the tax deed sale. This requires a title search which is done by the county's attorney and is available to the public to review. In some counties it isn't easy to get the documents, but it is generally possible with effort. The tax deed sale wipes out all liens on the property – but they can be re-filed if they are from a governmental body –city, county or Federal.

As a side note, we are seeing many entities being formed by major national and regional banks which are buying tax certificates and tax deeds. Remember the promise that you can get 18% or more on your tax certificates? These major players are bidding 0.1% (one tenth of one percent!) to buy the tax certificates. Sounds ridiculous, well it's not when you consider that the lowest amount payable is 5% in our state, it makes perfect sense. However, if they bid 0.0%, they would get 0% return. Remember this when you go to bid at the next certificate sale.....

I love the press – they try so hard to make statistics help home buyers make their minds up. In a recent article in the Sun Sentinel, home prices were compared by zip code as to recovery performance. Some zips they chose were down over 9% from last year and others were down over 35% in the same period. First let's remember that last year's prices were VERY low so any "increasing price" has to be tempered that prices are down 50% to 60% from two years ago.

Let's look at one of the "up" zips – 33327 which was up 9.3% from a year ago. Running the statistics on REIFAX.com, I can see that there are about 10% "Distressed" properties (lis pendens delivered or already REOs – most are not listed for sale) and 14% are "Upside Down, not in foreclosure and Not for Sale" – this means that realtors® can't see them on the MLS®. There are about 6,727 single family homes in this zip, so approximately  $10\% + 14\% = 24\%$  will have to come to market in the near future.

That's over 1,600 homes besides the normal sales that occur in this zip. In the past year about 170 have sold, that's equal to over nine (9) years of inventory coming to market. To "top it off", about 10 have sold in the past year that were short sales and only 35 that were foreclosures.

Let's look at the lowly zip, 33313 where the investors are making money by buying junk and rehabbing to return the community to its residents. Here the

home prices are down 35.2% from a year ago. There are about 6,239 single family homes in this zip and about 7% are “Distressed” and another 7% are “Upside Down, not in Foreclosure and Not for Sale”. This is about 420 “Distressed’ properties and 480 “Upside Down...” = 900 homes that will have to come to market in the next year or so. In the past year, 169 have sold so there is a 5 year inventory, but the home prices are 1/5 of the higher priced zip above.

What does that mean? To me it means that the next big wave of foreclosures is coming and it will be another bonanza for the investors who “get it” and know how to handle this market. How much more can prices decline? Just last year at this time, there were articles galore proclaiming we were within weeks or months of a bottom. Gee, prices are up according to the newspaper article – why not throw caution to the wind and buy anything! It feels a lot like the heydays of the “greater fool theory” – buy anything, there will be someone just waiting for your property – you hope! Oops – someone forgot about banks not lending and appraisals including distressed sales.

Despite having said all that, this should be the best market in the past 35 years if you know what you are doing!

To your limitless success,

Dave Dinkel