

Weekly Insight 4-27-2011

Don't Even Think About it - or Else

This week life went from sublime to absurd as we have seen some more strange things happening in the short sale and REO arena. Before I get into the actual events, I should say that lenders holding REO properties continue to keep shooting themselves in the foot with total disregard for common sense. They are allowing their asset managers and listing brokers to put stifling provisions on their submission requirements – effectively keeping out legitimate bidders for properties.

The problem in the minds (or mindless executives) is that somehow real estate investors are taking advantage of their banks by buying low and selling higher – often in hours or days after the closing. They blame the realtors® being in collusion with investors – and in some cases this is a problem. After all, who wouldn't want to be handed deals and get special attention (pocket listings) for getting deals? But look at the lenders' side – it has been estimated that over \$10 Bil annually is lost in revenue to “insider” sales that would otherwise have given the banks more money on the sale of their REOs and short sales. Even realtors® complain that they are losing over \$5 Bil (that's five billion dollars) a year in lost commissions because of investors.

Banks also blame the BPOs (Brokers Price Opinions) generated by the realtors® as bogus, but they only pay \$40 to \$75 each to the realtors® instead of getting a professional appraisal that costs \$250 to \$300. I see how hard realtors® work to generate BPOs. Realtors® have to use the same data as an appraiser, but they also strive to be optimistically high to get the listings. It used to be professional appraisals cost \$300 - \$350 but careful maneuvering by the banks' lobbyists in Congress have “busted” the industry into forming appraiser pools and reducing appraisal fees to \$150 or less.

I just turned down a short sale offer from a lender who was originally asking \$225,000+ for an income property. I was called by the agent who had the listing and asked if I would put an offer in as there had been no offers on the property, despite it being listed in the MLS® for an extended period. Strange when agents are getting “20 calls a day” as one agent was quoted as saying in a recent newspaper article – everyone must have missed this property.

I offered \$125,000 after I inspected the property. Usually, I make an offer without seeing the property and wait until I know I have a shot at it to actually do an inspection. In this case I went ahead and did the inspection as it was a rented “cash-cow”. As with most short sales, I didn't hear anything for a couple of months and then the agent asked me to counter a \$190,000 offer from the bank. I countered with \$130,000 and didn't get a response for a couple of weeks.

The Loss Mitigation Representative “channeled” back that he had a BPO for \$190,000 and he needed a “closer” offer. I said I wouldn't go any higher and did not hear back.

The only point here is that the Loss Mitigation Representative has only two standards to go by – BPOs and appraisals so he is wearing blinders as to what is happening in this market. The BPO was done on an income basis of the property being fully rented which it was not, and it assumed the structure was legal – which it was not. We'll wait for it to become an REO and likely pay less than my original offer.

I saw that home sales are “sizzling” according to a recent article in our local newspaper. I love statistics so I thought I would look past the headline and see what it all means. After all, if things are really heating up that much maybe everyone should start buying everything - or start cooking eggs on a sidewalk....

Sales in March of 2010 were pretty “shaky” price-wise because of a flood of foreclosures so the median price SFH (single family home) was \$162,800 and declining. However, in March of 2011 the median price of SFHs rose to \$175,400 (up 8% over 2010) which was partially because so many foreclosure cases were withdrawn in earlier months. Don't forget, most or all of these postponed foreclosures will be coming to market later this year or next year.

The “median price” is determined by dropping the highest and lowest priced home sales in the county that month with the remaining “middle” price being the “median price”. If there are two properties remaining, the median price is the average of these two remaining properties. So the median price can be “skewed” when low priced homes aren't selling or more high-priced homes are selling. In the long run, the median priced home is a better indicator than an “average” price because high and low prices can be very far apart in some bordering neighborhoods.

I believe the real indicator of market strength is more apparent in the volume of sales. If the market is returning to some reasonable level of stability, the lenders have to start loaning money for retail buyers and investor sentiment will be pushing lower priced homes higher as rehabbers gobble up perspective “cheapies” to turn into mini-estates. In fact, the volume in March 2010 was 1,080 and for March 2011 was 1,169 – a whopping (?) 8% increase – Wow! It should be 2,000 sales if investor sentiment was strong. So, I think we might be a little early to say prices are sizzling – but then I am a conservative.

Now for the punch line –

Seems a couple of lenders continue to be more unfriendly to investors doing short sales. Initially we have seen them install minimum holding periods of 30 days and then 60 days. Another lender went the same route to slow “flipping” short sales by adding a new clause in their acceptance letter.

The clause says “acceptance of short sale proceeds is contingent upon there being no other pending escrow transaction involving a future transfer of the property listed above upon completion of the short sale. ***Here is where it really gets funky*** – If such future transfer is **contemplated** or such escrow is pending and then this Short Sale Demand shall be null and void.”

Wow! Sounds like an investor can't even think about re-selling their newly purchased short sale! That's like saying don't think about a pink elephant..... What are they thinking? How do they prove you were thinking about re-selling the property? Maybe they have spies out there just waiting to catch you thinking about selling and making a profit. Do the lenders now have electronic machines that read minds? I asked out real estate attorneys about the mind control issue and they laughed so hard I thought one would burst a lung. Just remember, don't think about selling a short sale until after you close or ELSE! Pink elephant...

Everyone should acknowledge that if investors don't buy the properties that the banks have forced the homeowners out of, no one will buy them in most cases. What end-buyer wants to move into a property that needs substantial rehabbing to make it livable and pay on a mortgage while he is waiting to move in? Most likely the real problem is jealousy that the bank employees can't do deals themselves.

We got a call from one of our students who complained that he did his three deals, one a month for three months, but it wasn't enough as he had to replace his salary (airline pilot). When I interviewed him it was easy to see that he was making only one offer a day. His explanation was it took 1 ½ to 2 hours to do a contract and he wasn't good at following up. I showed him how to do complete contracting in 15 minutes or less (not 5 minutes or less) and he went on his way. He has done a number of deals with some real money in them – all on his own since he graduated. His call was to tell us he had completed one that we would appreciate – he netted \$110,000 on a single deal. He may be at our BREIA meeting next week so he can tell you his experience with the deal and being in our mentoring program. Lucky, just lucky, lucky, lucky.... Sour grapes anyone?

To your limitless success,

Dave Dinkel

Ah Ha, I caught you thinking about a pink elephant!

P.S. Next Friday and Saturday, May 6<sup>th</sup> and 7<sup>th</sup>, we will be having one more Mentoring Program. We had enough people that couldn't attend in January that we decided to do one more and one more only. I know you heard me say that, but working one-on-one with students daily is super time consuming. We have four seats remaining – the choice is yours to change your life or not.....