

## What Is the Right Thing to Do?

The following is a common moral, ethical and financial dilemma. For some readers there is no problem and the solutions are very simple. For other readers, it may take some thoughtfulness to make the best decision.

A student came into the office and told me he had a closing coming up in one week and the seller was flying in from out-of-state to close it. The student had negotiated what he believed to be a fair price and contracted with the seller at \$41,000 for a medium-sized two bedroom, one bath home. The property was unable to be sold in the inspection period even with a price reduction and a couple of emails to our buyers list.

I looked at the pictures he had of the property and noted that it needed central air, a roof, a kitchen, appliances, floor coverings, an upgraded bathroom and a complete patch and paint throughout. Essentially the rehab would be \$20,000 to \$25,000 or more. After repairs the home would have to sell for \$75,000+ to make a modest profit. However, the neighborhood would only support comparable sales in the range of \$45,000 to \$65,000.

The student could have done the rehab and sat on the finished property until it sold. However, within a ½ mile radius of this property there were 274 Distressed Properties that were already bank owned or where the lis pendens had been served – but none were for sale on the MLS. In addition, there were 470 homes where the owner was “Upside Down not in Foreclosure and the properties were Not For Sale”. This is a staggering 700+ homes that will have to come to market in the near future in a neighborhood of 1,100 homes.

So the dilemma is, “Does it make economic sense to close on the property and try to wholesale it, or even rehab it for a retail sale?” The reason we didn’t have any bites on the property as a wholesale deal was because our asking price of \$51,000 was too high to start. The property would have been a fast sell if we could have offered it in the upper thirty-thousand dollar range. This would have left a rehabber, who did his own work, a profit spread that made sense. But that wasn’t the case, and the property had been contracted at too high a price.

What does the investor do now that he is facing a closing that will result in a certain financial loss? Should he close and take a financial loss or renegotiate his purchase price with the seller? As I made the options clear to the student I could see he was getting emotional about telling the seller that he wouldn’t close. He even offered to buy the property, but logically it didn’t make sense to close on the sale just because he didn’t want to hurt the seller’s feelings.

We discussed the exact words to say to the seller and how she might react. The preverbal question of, “What’s my liability?” came up. As a buyer, his Standard

FAR/BAR limited his risk to his escrow deposit of \$250. His closing agent might have accrued additional charges that he could be liable for, in total about \$500.

I had a great deal of empathy for the student as he struggled with deciding what was the right thing to do, either close on the property and lose money, or default and walk away. It was not an easy decision for him, but he decided to walk away. He emailed me back later in the day and said the seller had gotten angry and was going to sell it to another investor for a slightly lower price. Only time will tell if this actually happened. It is an ideal time to send another investor to the seller to negotiate a lower price that makes sense.

This issue of a buyer getting buyer's remorse is common and very frustrating as a seller. Your only defense as a seller is to get as large a deposit as possible, get to know the buyer as much as possible before signing a contract, and have your buyers list ready in case of a default by the buyer.

What you might wonder is how often doesn't a sale happen. My answer is based on my experience (almost never) to what I see in the industry being as high as often as 50% of the time. Why the wide variance? Simply because some investors put in contracts without having any idea what the property values are and hope to make a deal happen. Their motto is "Sign it up and sell it out!" which works if there is a bigger fool on their mailing list but it does create animosity with sellers.

If you find yourself facing a closing with a possible loss on the deal, there are only certain possible exit strategies that exist.

1. Close knowing you will lose money on the deal, but hope that you're wrong and you'll break even. (Not smart, but it happens a lot)
2. Market the property as a wholesale deal for the inspection period and walk away if you can't sell it. (Good economic sense, but may be emotionally stressful when you tell the seller. You'll take a small economic loss, but it will probably be your smallest loss in the deal)
3. Renegotiate the purchase price with the seller at the "eleventh hour" to get a better deal that makes economic sense. It may not work, but you have only the deposit to lose and a price reduction to gain.  
Requesting a price reduction to make the deal work, actually works about 20% - 30% of the time based on the seller's motivation. (The seller taking a lower price is sometimes necessary and is a good financial decision. If the seller doesn't agree, you should take the loss of the deposit, even if it is large by your standard. The seller may hate you but you can't run a business by taking losses especially when it is just for the sake of saving face with a seller.)

Often times in your investing career and personal life, you'll have to make uncomfortable decisions, just remember that others will be making the same decisions about you where you are impacted negatively. So is the decision not

to close a moral dilemma or a business decision that you have to make to continue in business? The decision is always a choice that you'll have to live with, so make the best decision you can.

To your limitless success,

Dave Dinkel

PS – **WARNING** - Check your closing costs carefully on your HUD-1 Statements and challenge anything that seems too high. Last Friday, a student copied me an email from a closing agent who wanted to charge him \$195 for notary fees. This amounts to about \$50 for each signature's notarization. The student told the closing agent I was coming to the closing and I would be the notary! Please be careful out there and don't assume that just because it is on a closing statement it is accurate or fair!

**Our next BREIA Meeting on Wednesday, August 4<sup>th</sup>**, we'll have two Educational Hours, the first will be on the continuing series of "The Life Cycle of a Real Estate Deal", specifically "Is it a Deal or No Deal?". The second hour will cover "15 Ways to Do Real Estate Investing With No Money, No Cash and No Credit".

**Saturday, August 18<sup>th</sup> will be our second** "Foreclosure Defense and Asset Protection Seminar". Attendees will get a massive amount of sample documents that have been used in the court system to postpone foreclosures and fight for your rights. If you are contemplating or in foreclosure, DON'T miss this event! Call 954-318-6042 to reserve your seat. Price is only \$97 for the event and includes a consultation with Attorney "X" of the Brien Law Group.