

Finding Highly Discounted Properties: A User's Guide to Building Wealth Through Analysis of Prospective Investment Homes

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My partner, Ryan Hinricher and I, buy a considerable volume of homes each month. Some we keep, and most we resell. I guess you could call us 'wholesalers', although that term has come to represent an antiquated image of a shady character trying to hustle 25k – 50k markups on unsuspecting buyers. What we do is a much more streamlined process, meant to keep everyone in the process, including ourselves, fully accountable. And part of that accountability is insuring that deals we present to our investing clients meet the standards of excellence that we have set forth for ourselves in our personal portfolios. It's an approach that works really effectively, and we feel that the principles we use daily in our search for investment homes can be used as effectively, if not more so, by independent investors(like you!).

The key to remember is that our approach is threefold, and in no sequential order:

- Locating properties which are attractive to tenants and priced lower compared to market values of similar homes.
- Determining a seller's motivational level by examining the occupancy status of the home and determining if it is worth pursuing.
- Understanding negotiation thresholds and determining appropriate points of negotiation that can help 'sweeten' a prospective deal for you.

Let's examine these in some detail.

- Locating properties which are attractive to tenants and priced lower compared to market values of similar homes

In our approach to real estate investing, where clients depend on us to find them quality investments where the numbers 'work', we cannot afford to squander time or resources working an offer that is bound to fail. As such, we begin by looking at market values of home in desirable rental neighborhoods and compare the prices of available prospect properties to other properties, either in terms of recent market sales or current listings.

To simplify, suppose we have a neighborhood where the average ARV of a 3 bedroom, 1 bath 1000 square foot home is 75k. We find that there are four available listings, as follows:

<u>Address</u>	<u>Asking Price</u>	<u>Status</u>	<u>Days on Market</u>
123 Maple Street	\$74,900	Owner Occupied	15
123 Broad Street	\$72,900	Vacant	96
123 Main Street	\$67,900	Tenant Occupied	33
123 Maple	\$59,900	Owner	74

Street	Transfer
<u>Address</u>	<u>Asking Price</u> <u>Status</u> <u>Days on Market</u>
123 Maple Street	\$74,900 Owner Occupied 15
123 Broad Street	\$72,900 Vacant 96
123 Main Street	\$67,900 Tenant Occupied 33
123 Prescott Street	\$59,900 Owner Transfer 74

Now, the question is, which one of these do we make an offer on which gives us the best chance of success? To better illustrate, let us ask this question:

Which one do we NOT want to make an offer on? Which property looks to have to most probability of being a time – sucking waste? Clearly, 123 Maple Street – the first in the chart – would be a waste of our time. Why? With an asking price of, essentially, market value, and a minimum amount of days on market, we can expect the owners to have little, if any, flexibility. And flexibility is what we need if we as investors are going to be successful, so we can eliminate Maple Street IMMEDIATELY from the prospect list.

This leaves us with these:

<u>Address</u>	<u>Asking Price</u>	<u>Status</u>	<u>Days on Market</u>
123 Broad Street	\$72,900	Vacant	96
123 Main Street	\$67,900	Tenant Occupied	33
123 Prescott Street	\$59,900	Owner Transfer	74

Which brings us to the second principle:

- Determining a seller’s motivational level by examining the occupancy status of the home and determining if it is worth pursuing

Here, we must determine the seller’s level of motivation, which can be difficult to discern. Rarely will listing agents be willing to disclose the seller’s true level of motivation or reasons to sell, but believe me, they exist. In this example, however, we find that Broad Street has been on the market for 96 days – over three months – a true reason to consider making an offer, one which might be considered ‘low’ but have the possibility of being accepted or countered at a

significant discount. So Broad Street gets a checkmark and we will make an offer on it. Also, the fact that Broad Street is vacant shows us that the seller has some intrinsic motivation, and that is also a plus towards us getting a good deal.

But are there other properties that deserve consideration? The tenant occupied property on Main Street doesn't look too good to me – I have never ONCE had a good experience transitioning a tenant from a previous landlord – so Main Street is out. And, it has been a relatively short time on the market, which could also make it a hassle. So we'll strike that one.

Prescott Street, however, certainly catches our eye because of the following reasons:

- The asking price is already low compared to market value, providing instant equity even if we were to buy it at full – price, which we won't. Remember, we are looking for discounts.
- It has been on the market for 74 days, and is aging rapidly – also a positive factor for us getting an even better deal.
- The owner was transferred, leaving the house vacant and the owner possibly carrying two mortgage payments. In this way, we see that there is a strong possibility for the seller to be REALLY motivated.

In this way, we will offer on Prescott Street as well.

Let's look at the third principle and how it can aid us as investors.

- Understanding negotiation thresholds and determining appropriate points of negotiation that can help 'sweeten' a prospective deal for you.

Now, the most important thing to remember is that, in negotiation, you have to pick your battles carefully. Most people think that price is the most important factor when you are attempting to purchase investment real estate, but it is in fact only one of several factors. Yes, price is important. Yet, terms are equally if not more important. Terms are factors that can influence favorable acquisition of a property, and can include the any of the following items:

- Length of time to close
- Seller Financing, if applicable or possible
- Credits, repairs, or other miscellaneous costs that a seller may be willing to offset, including costs to close

In fact, there are times where you will WANT favorable terms instead of a good price, especially if you are able to get seller financing, which you should always attempt to do. Remember, one mortgage less on your credit is always a good thing. But, it is important to determine which points of negotiation are worth pursuing and which ones can be potential 'deal – killers', and should be avoided at all costs.

When facing the task of sifting through multiple prospective investment properties to find a great deal, it is important to use your time effectively. As such, using these three aforementioned principles will assist you in determining the quality of various deals, locate the juiciest ones that

are ripe for the picking, and strike while the iron is hot. And that is lots of clichés in one sentence!!!