

Foreclosures In 15 Minutes

Investing in foreclosure homes for resale is not that different from investing in foreclosure homes for rental income. Many of the same rules apply and many guidelines remain constant. As with any type of investing, the point at which you enter will determine how profitably you exit. The single largest distinction between real estate investing and stocks, bonds, mutual funds or precious metal is that real estate allows the investor the opportunity to have a more direct and immediate impact on the investment vehicle—the foreclosure home—through rehab, paint, carpet, etc. This article demonstrates how to quickly make an assessment of a potential real estate investment.

This guide should allow the average investor to make a rapid and well-thought-out decision. An informed real estate investor will not "lose out" because of third-party factors such as obtaining appraisals or contractors and repair people. An aggressive, proactive approach by the real estate investor can reduce the time it takes to obtain foreclosure homes. A passive approach or an offhand attitude does not promote good opportunities. Remember, work WITH your real estate agent and get proactive!

How to Determine Equity

The old adage about the only three words in business being "Location, Location, Location" is as true as ever. In real estate, however, those three words are "Equity, Equity, Equity." The difference between what is owed on a property and its market value is called equity. As a real estate investor, the goal is to buy the foreclosure home for less than the full value and sell for market value in order to make a profit in the process. The question is, at what point does caution balance against risk to make a profit on a foreclosure home?

A strong equity position is generally targeted at 25% after repairs. An equity position less than 25% can work for rental investments, but for resale purposes 25% is a safe figure. In order to determine if 25% after repairs can be achieved there are only three variables that need to be weighed in the mind of an investor:

- How much can I get the foreclosure home for?
- How much can I sell the foreclosure home for?
- How much will it cost to repair the foreclosure home?

It is not difficult to obtain answers to these questions as long as the readily available data can be obtained quickly and accurately distilled into usable information. By using the following guide and examining each foreclosure home in terms of these three variables it should not take more than fifteen minutes to determine if a particular foreclosure home is a wise investment.

How much can I get the foreclosure home for?

First, ask what your real estate agent knows about the particular foreclosure home:

1. How long has the home been on the market? (Not vacant, but available for sale.)
2. Can investors bid on the home? (Some properties are for owner/occupants only.)
3. What does your real estate agent think about the home? (A good real estate agent is worth his/her weight in gold.)

Second, look at the foreclosure home yourself. Is it a "fixer upper" or is it "market ready?" The cost to make a foreclosure home ready to sell has to be considered as part of the cost of buying a property. Usually a good look will tell you how much of a commitment in funds will be required.

Third, be sure that you are willing to own the foreclosure home for the duration. While it is certainly possible to get in and get out without a serious commitment of finances, be ready to own the foreclosure home until it is sold. Some banks have regulations stating you must take possession of a property before you can sell it again. If, for whatever reason, your buyer is unable to complete his end of the transaction, you need to be prepared to be the owner of the investment property until it eventually sells.

Fourth, bid quickly and often. Nothing is more frustrating than investing a lot of effort into a project for nothing. When considering investments, do not hesitate and risk missing an opportunity. If a deal looks only "so-so" (only a 10% equity position, for instance) BID LOW to achieve that 25%

potentiality. It could be a good rental, or even a modest resale. And there is always the chance you might win the bid. In investing, as in life, "he who hesitates is lost." After submitting a bid, start looking for the next investment. Don't delay a possible "big dessert" while waiting on the first course.

How much can I sell the foreclosure home for?

As a general rule of thumb, most investors are motivated to purchase with a minimum 25% equity position (after repairs). This requires two separate deductions in order to be sure of a 25% equity position: the true market value of the subject property (after repairs) and the actual repairs.

In order to determine the true market value without ordering a full-blown appraisal (both time and financially prohibitive), an investor must look at comparable sales. "Comps" are available from your real estate agent or online from services like HomePriceCheck. While the online services may serve as a general guide, the comparables your real estate agent can obtain will take into consideration many more factors. Look at the entire neighborhood in print format. Then consider the most recent sales that reflect the style and neighborhood of the subject property and compare them to your investment home.

How much will it cost to repair the foreclosure home?

After looking at the comparable sales, the investor need only reduce the repairs to understandable figures in order to calculate if the foreclosure home can be purchased and repaired for 75% of its market value (the 25% equity magic number).

To estimate repairs one could have any number of contractors offer bids and submit proposals, however the time required for meeting with three contractors and getting proposals may not be available. A quick-thinking, fast-acting investor can estimate work required by walking through the subject foreclosure home and tallying the figures without a second appointment.

These figures are not concrete numbers, but should allow a quick and easy comparison of value allowing a decision to be made after the estimates of repair have been performed.

The following should offer some averages for the more common repairs to a 1200 square foot rancher without a basement.

Paint w/minor drywall repairs: \$800.00-\$1000.00 per house

Carpet (one grade above builders): \$1000.00-\$1200.00 per 1,000 sq. feet

Kitchen and Bath flooring: \$300.00-\$500.00 per room

New Roof (try to repair first): \$2,000.00-\$3,000.00 per house

New Heating and Air: \$1,000.00-\$2,500.00

Appliances (Save Money-buy used): \$250.00 per appliance

Miscellaneous Expenses: add 10% to total

Foreclosure Tips

Tip #1 - The rewards are greatest when the real estate investor is a knowledgeable, pro-active force in the process. Take an active roll in your foreclosure home investment.

Tip #2 - The figure for how many days on market (DOM) a property was available before its eventual sale will be found on the MLS listing. Be sure to ask your real estate agent for these figures specifically so that a determination can be made regarding the desirability of a particular neighborhood, style of home, and other factors.

Tip #3 - Along with "sold" properties, take a look (in print) at other homes that are still "available" or "withdrawn" from the market to determine the health of the market.

Tip #4 - Be sure that you are true to your investigation and do not allow passion or trepidation to sway your decision-making either way. It is more important that you swing than it is that you hit a home run. Bid often!

Tip #5 - Once the subject property is under contract, be sure to get a foreclosure home inspection and estimates from more than one contractor.