

The Tools for Foreclosure Investing

There are five basic tools required for successful foreclosure investing.

1. A notebook (I like the subject notebooks, wirebound on the side)
2. A pen kept in your car(maybe two, cars seem to eat pens)
3. A calculator (Nothing too fancy, just to do simple figures without making mistakes)
4. A Thomas Guide (This is the best way for finding locations and directions)
5. A mind willing to change behaviors and to learn new things.

The first three are fairly self-explanatory, you aren't going to be able to remember everything you see and everywhere you've been, so you'll need to make notes to refer to later, the calculator will help when you are running numbers on a property.

Let's start with an exercise in behavior. Take your Thomas Guide and follow the routes you take to go to work, go to the bank and go to the grocery store. How many neighborhoods do you drive by that you never actually drive through? How many streets with how many houses are there that you haven't seen in the last six months? The last year? For the next week, leave for work 15 minutes early, pick one of those neighborhoods and drive through as many of the streets as possible at a fairly slow pace. LOOK at the houses, what condition are they in, how are they maintained, what kind of cars are in the driveways, do a lot of people park on the street? Any houses that are listed for sale and have flyers in front, you should stop, take a flyer and take note of the condition and appeal of the home. Then, after work, do the same thing in the same neighborhood on your way home. Need to buy groceries? Drive through a local neighborhood on the way. Same thing on the way back.

If you always take different routes and see different neighborhoods, you will begin to see properties that don't fit in with the neighborhood. It might be the lawn isn't mowed or perhaps it's not maintained the same as the others, maybe there are too many cars parked in front or sometimes the house just looks empty. The point of the exercise is to train your eye and your mind to always look for property that doesn't quite fit with the surrounding homes. You take a flyer from the listed homes to start to build an idea of what homes might sell for in that area. Each day, switch to a different neighborhood, you'll see differences between neighborhoods and individual properties will start to stand out more when they don't fit the neighborhood. As you become more practiced, look at the style of building in each neighborhood. Does the style and quality of construction conform with the other neighborhoods you've seen? Even if all neighborhoods are maintained virtually the same, quality of construction can vary widely between adjacent neighborhoods. The ability to drive into a neighborhood you don't know and fairly quickly determine housing quality in relationship to surrounding neighborhoods along with establishing an individual property's quality to it's neighborhood is essential for successful investing. This will be discussed more in following chapters, but for now, start using tool # 5, your Mind.

What else can a Thomas Guide show you? Things look very different when you look at a detailed map versus driving in the same area. Look at streets and areas you know well. Identify the neighborhoods and how they change throughout the area. Major streets divide neighborhoods, neighborhoods usually get more desirable as they get closer to amenities(parks, open space, golf courses), they usually get less desirable as they get closer to impacts(freeways, commercial areas, high density residential). Look at your area on the map, then drive your area looking at the housing. Does it hold true? Sometimes it's just a little less maintenance, perhaps there are more rental properties than in other areas, but you will find that prices will also be lower for impacted properties. Properties nearer amenities will usually be highly maintained and sell for neighborhood top dollar.

If you've gotten this far, the two biggest problems of "I don't have the time and I don't have the money" have been addressed. 1. You can begin to learn about property and its values by taking just a little extra time each day when you are going to be driving anyway. 2. You shouldn't have spent more than \$35.00, most of that for the Thomas guide. Continue with driving different neighborhoods, expand into new neighborhoods and remember, you can't see what's there if you're driving 45 mph.

Determining Property Values

Property fair market value is determined by recent sale prices of similar properties in the same area. The sales assume a fully informed willing seller and a fully informed willing buyer. Let's say you are interested in 123 Main St. and want to know the current market value. First step (using your Thomas guide) is to define the neighborhood this property is located in and any likely impacts or amenities. You can do this because you followed the procedures in Chapter 1. Next, you need a source for comparable sales (comps) from the last six months. Realtors can provide Multiple Listing Service (MLS) comps for a given area, title companies can provide comps from tax records and there are a few on-line services that can do the same. Taking your list of comps, you drive by each comp noting condition, size, appeal and location. While you drive each one, look for properties that are listed for sale and take the same information for them also. Keep in mind that comps might have had work done since the sale, look for signs of recent work, especially on very low sale prices. Your last stop will be 123 Main St., the subject property. How does it compare to your comps in condition? Is it bigger in square footage or smaller than most? Is the lot bigger or smaller? Does it have the same number of bedrooms and bathrooms? Are there impacts or amenities close by that will affect the sale price in relationship to the comps. This is why comping a property is more an art than a science. From your comps, you want three neighborhood properties that closely match the square footage, bed/bath count and lot size of 123 Main St., your subject property. If those three are all pretty close in condition and there are no outside factors, the sale prices should be close together. Making any adjustments for size and/or room counts, the market value will be in the range of the 3 close comps. If there are a lot of properties listed for sale and they are all listed at a lower price, you'll need to look at the listings stronger, they could define the current top market value. But, if there aren't any current listings or just a few and those few are listed at a higher price, you might be able to support a higher value upon resale. But wait, you say, my subject property needs a new roof, there is no landscaping and the house hasn't been painted since it was built.

Market value is going to be determined by the area the property is located in. Rehabilitation (Rehab) is often a requirement to bring a property to its Fair Market Value. Obviously, no one is going to pay market value for a property that needs significant rehab. That's where you, as an investor, come in with the knowledge and capability to accomplish a rehab allowing for the property to be sold at its fair market value. Your objective is to acquire the property at a price low enough to allow for rehab and holding costs until the property can be sold earning you a profit.

How to Rehab a Home

You've got a house, now the question is "What to do with it"? The best first step is to evaluate the neighborhood. If the neighborhood has shingle roofs, vinyl floors and basic amenities in the homes, you don't need a tile roof, ceramic tile and gold plated fixtures. The objective when doing a quick cost-effective rehab is conformity with the neighborhood. Carpet, paint and some landscape are almost always a requirement to freshen the appearance of the property, after that, your rehab should focus on getting the most improvement for your investment dollar. Structural Rehab- I strongly advise against a new investor purchasing properties needing structural rehab. If there are sagging floors, cracked foundations, fire damage, unpermitted structural changes, water or dryrot damage, stay away from the property. While these kinds of property can be purchased very often way below market value, the rehab cost to bring them back can make your investment a non-profit effort. The difficulty in evaluating cost of repairs means this type of property should be left to more experienced investors and contractors.

Beginning Cosmetic Rehab - You've evaluated the area and know what the house SHOULD look like, now how do you get it there? If you start on the outside first pruning back overgrown trees, cutting shrubbery back and getting any lawn back to a normal height, that's the first step. Watering on a regular basis after your trim back will allow plants and trees to start to grow in an attractive fashion. You start with vegetation first, because you can control the speed of interior projects, but you can't make plants grow any faster. A freshly painted exterior on a home greatly improves its curb appeal. Since you have the existing plants cut back, now is a good time to proceed with exterior paint. Again, keep in mind you are looking for conformity with the area, colors should be in the same range as other area homes.

Inside Cosmetic Rehab - There are three basic inside area types - kitchen, bath and living. Kitchen is the most expensive to rehab, bath is the second most expensive rehab and living areas are fairly inexpensive to rehab.

Starting with basic living areas, pull the carpet from each room, roll it and store it in the center of the living room. You can leave the padding. It's much easier to paint without carpet, the living room is usually the largest room and closest to the front door. The new carpet installers will haul it off when they install the new carpet. Window coverings, electrical outlet covers, switch plates, light fixtures, door knobs and hinges can all be pulled. Please keep in mind the power should be turned off at the breaker box anytime you are working around electrical fixtures and outlets. Mark all the doors on the top edge (no one ever sees the top) identifying which room they belong to and put them all in one room. You should be able to see every imperfection in the walls at this point, now is the time to patch, clean and prep for painting. Mask off doorframes, cabinets and window frames. When you've completed the prep, start the painting. Sprayers are the fastest method of applying paint, since the house is gutted, overspray isn't a major problem except around your masked areas. Ventilation is important though, so you'll want open windows wherever you're working. Living room first, then bedrooms, hall area last. Re-inspect each room 1-2 hours after painting to make sure everything is covered and even, retouch any problem areas.

Time to get an accurate count of outlets, switches, hinges, knobs and light fixtures. Go through the whole house counting everything you removed or will remove. Every light switch and cover plate should be replaced along with all outlets and plates. Every living area light fixture (don't forget bulbs) should be replaced, determine whether kitchen and bath light fixtures need replacement or are serviceable. Every door will need new hinges and a knob. Do you have to change everything? Maximizing returns is about impression. Used hardware will be discolored, scratched, have paint on it and not match throughout the house. A new knob (with striker plate) and hinges, a new light fixture, new switch, outlets and paint should cost less than \$60.00 per room. For a standard 3 bedroom home that's \$300.00 for the living type areas. Everything will

match, be brand new and make the home much more desirable. Doorframes, window sills, cabinets and doors are usually going to be a semi-gloss enamel paint. Since you are now done with interior wall paint, lay doors(in the door room) on the floor, 3 or 4 at a time. Prop one end up about six to twelve inches and you can spray one side and the two edges people see. Keep overspray off the walls. When they are dry, flip them over and do the other side. Brush or use a small roller for doorjamb and cabinets. Install light fixtures and outlets while paint dries, as doors dry, take them back to the room where they belong. After doors and jamb are completely dry, they can be re-hung and hardware installed. There's no need to rush, you can complete painting and installation as you rehab the bathrooms. Bathrooms need individual attention. In many cases, fixtures have been upgraded through the years, so a full gut and rehab isn't necessary. Use your judgement. It's easier to paint and replace flooring if the toilet and any sink cabinet are removed. Re-install with new plumbing and seals and you will have a fresh bathroom with no water leaks or built up corrosion. New handle sets and/or spouts will sometimes be enough so you don't have to replace everything. Cabinet handles and hinges should all be replaced. Flooring and paint should be the same if there are multiple baths, often there will be different fixture styles in each, that's fine as long as everything matches in each.

At this point, you need to clean all the windows in the house, inside and outside. Pick up anything remaining in the rooms and take it to the kitchen or remove it from the property. Kitchens are important. Clean and paint is the first step if you are keeping the existing cabinets. If existing cabinetry can be salvaged by intense cleaning and/or refurbishing, that will be your biggest cost savings. Cabinet handles and hinges should be replaced unless the existing ones are in extremely good condition. Counter-tops (if ugly or damaged) can usually be changed fairly easily, professional installation is worth it for a finished appearance. Flooring should be installed after any necessary cabinet work, whether it's cleaning, refurbishment or replacement. The sink should be free of stains and corrosion, the plumbing underneath should be the same, if it's not, change it out. Clean and put down shelf paper in all the drawer and cabinet interiors. Make sure the lighting is adequate, if not, change fixtures or have additional fixtures professionally installed. If the oven or stove need replacing, there are stores that sell used appliances, these can be a good deal.

Carpet gets installed during kitchen rehab. As soon as the kitchen floor is down, get the installers in. You can schedule installation when bathroom and kitchen floors are done, you should be done with paint and all of the "messy" projects. Everything remaining shouldn't get the carpet stained or tracked up. Any remaining tools or supplies should be in the kitchen, the rest of the house should be clean and empty. Marketing the property can be started during kitchen rehab. When you have carpet in the property, a "for sale" sign can go in the front yard. The windows are clean, the property is immaculate and since you will be on-site anyway finishing the kitchen and a few other things, leave the front door open and place an "open house" sign in front while you are there. Any remaining rehab to the kitchen should not adversely affect a buyer's decision. They will be able to judge the quality of work by the rest of the house.

Finishing Cosmetic Rehab - It's time to finish the front of the house. Flowers should be planted where appropriate, either rehab or replace the mailbox, porchlight, house numbers and doorbell. Keep in mind any plants planted close to the house might die if the house needs tenting for termites. Leave some room at the base of the house if possible. Take a critical look from the street, is there anything that stands out as being unattractive? Is your property now the best or one of the best looking on the street? If it's one of the best, there's nothing unattractive and you've priced right for the area, it will sell quickly.

You're still not done, so you can't rest yet. Smoke detectors need to be installed and you need to check all the systems (electrical, plumbing) to make sure they work properly. Window coverings need to be installed where appropriate. Just a note, you will sometimes have an offer in before

you get the window coverings installed, if you have made no promises to install and it's not written in the contract, you have no obligation to provide them. It's happened more than once!

How long does the process take? - Depends on how much time you want to spend and how much you want to contract out. Doing one at a time, cosmetic rehabs shouldn't take more than 30-45 days total. If you are doing multiple rehabs or require roofs, driveways, major debris removal, these can all cause delays due to scheduling problems. You can reduce the time by contracting interior and exterior painting, use day labor for exterior cleanup and use supervised day labor for some interior work. Most rehabbers start to contract out the labor intensive jobs as they progress. It's often most cost effective to find a new project rather than spend the time actually working on the projects.

How much will it cost? Time for you to spend some time at Home Depot. Get your local prices for knobs, hinges, switches, outlets, cover plates, light fixtures, bulbs, mailboxes, plumbing supplies, sinks, toilets, water heaters, faucets and paint. Write the prices down, after a few trips, you should have a decent knowledge of material costs. You'll add to your knowledge as you go along and every time you purchase more supplies, you'll see other items and add to your knowledge. Always figure on carpet, paint and fixture replacement. Then you'll only have to add specific items as needed for individual properties. If you can't get a close estimate of costs because there is major work, let the deal go by, there are always other properties.