

The Future of Real Estate Investing and the REO Agent



By
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Many real estate investments that outperform other similar real estate investments have to do with market timing – when the economy is depressed and home prices are relatively low, the appreciate potential over a given period is obviously higher than a property bought near a market peak held for the same period. Today’s economic environment, despite being trying times for the majority of Americans, has created a unique and rare opportunity for those buyers with the ability and foresight to purchase an investment near what is accepted by many as a market bottom, thereby positioning the asset in a way to potentially capture maximum appreciation and return.

This unique environment also has spawned the emergence of a new investor – the regular person looking for a sensibly priced investment. The short term gains realized from 2002 to 2006 were an aberration, a fake “bubble” that we will most likely never see again. Seasoned investors understand that investing in real estate is “long-

term” and with historically low interest rates and affordable income producing properties, real estate investing for the average person is growing in popularity. There are many television infomercials advertising their “Make Money in Real Estate Investing” by simply purchasing their real estate investing course. These advertisers understand that people want to invest in real estate, but lack the knowledge and skills to do so. REO and traditional real estate agents are in positions to help guide the novice investor by following a few investment tips that are highlighted in this article.

Three common types of investment properties are:

- 1) Auction Properties sold on the court house steps.
- 2) REO’s (Real Estate Owned by the bank) generally placed competitively on the MLS.
- 3) Short Sales. Often priced well below market value to initiate the short sale process.

Auction Properties: Since auction purchases require all cash buyers, this market is generally dominated by LLC’s, LLP’s, corporations and “All Cash” buyers who are looking to rehab and flip. I generally advise individuals working outside of the real estate industry that auctions are a ‘pro game’ – not something a single person should attempt solely without a team. Some investors will opt to hold the property, rent it out, and wait for future appreciation before placing it back on the market for sale. Since the purchase of properties at the court house steps requires all cash, most of the competition is squeezed out, leaving a handful of corporate investor. Today, from my experience, there are more recurrent bidders creating greater competition and driving auction prices up. Increased price decreases corporate profit projections. When profit margins exceed the parameters set by the corporate investor they will not make the buy, leaving room for an individual purchaser

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who, with less overhead and different holding terms and return preferences, might accept that property. The buyer is able to make accurate projections by relying on a real estate agent to determine market values and makes reasonably conservative assumptions. REO agents working with a buyer who would like to purchase at auction should make sure that the buyer(s) understand that properties being auctioned are usually distressed. There may be liens against the property, such as IRS liens, HOA, property tax liens, contractor liens, or even second mortgages. Many auctioned properties are still occupied so the agent may need to assist the buyer with a cash-for-keys negotiation, and should advise the buyer that in some cases a formal eviction process might be necessary. The REO real estate agents job is to educate the investor so they can make a sound decision.

REO Properties: Most REO listing agents have been contact by all cash buyers and corporate investors either by phone or email, inquiring about REO inventory that they may have coming onto the market. Choice investment properties are difficult to come by, so it

is not uncommon for investors to send out blanket emails to hundreds of agents looking to purchase investment properties. Many asset management companies have strict guidelines prohibiting dual agencies in which an agent represents both the buyer and the seller. However, experienced REO agents can assist investors in the purchasing of REO properties that are listed with another REO agent. REO properties are usually sold “as is,” and asset management companies are generally hesitant to conduct repairs unless the repairs issues are health or safety related. The REO investors’ agent should make sure the investor hires a licensed home inspector and help the investor obtain written estimate of the cost to repair the property. This must all be factored into the purchase.

Short Sales: When it comes to purchasing a Short Sale for an investor, be sure that the investor has an accurate perception of the average and worst-case short sales and that they understand that, although the seller and agent can price the home and ultimately accept an offer, the sale will not close without final price and terms approvals from the lender. When

an REO agent is placing a low offer on a short sale it is always a good idea to submit a Broker Price Opinion along with the offer. The investor and agent will need to substantiate the offered price in a logical way. It is also a good idea to provide an itemized photo addendum with the estimated costs for repairs to support the offer amount. When it comes to investing in real estate the number one reason investors do not make improved returns is simple, they paid too much for the property – and much of this is timing related. The investment profit is locked in immediately once the investor buys the property, and today’s historically low market prices lay the groundwork for considerable gains with thorough investment choice. Make sure to complete a detailed return on investment (ROI) analysis for your investor prior to the purchase and you have all the necessary disclosures in place ... just as you would if you were buying the property for yourself. ☺

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