

Foreclosure Auction RE Investing

By Jason Greenwald

Brief Intro

- I started going to RE foreclosure Auctions in Aug 2008. Self-taught.
- Started seeing 120-140 houses a week and going to 10 Auctions a week
- Bought 1st Property Nov 2008 for \$5,000...quickly wholesaled property for \$39k (without renovation, it was vacant)
- In Early 2009, I put up \$30k (proceeds from first house), with another Partner (they put up \$80K) , we had a 50/50 Equity Interest, I managed the deals, I bought two houses for (\$100k, \$40k,60K respectively), and quickly wholesaled for \$120k each (End of 2009)

Timeline of Capital Allocation Style

2008-2013: Thru different LLC's, and a Silent Partner, I was buying RE Cigar Butts. Buying an asset that had been sold via a forced- selling mechanism from lenders. (3 bidders for 70 properties) Capital was limited, a Cigar-butt method was almost by necessity. There was one quick puff, but not repetitive \$.

A typical Deal: All-in for \$30-35k, quickly sell the property for 125K, the key to this was the knowledge before the Auction (I bought properties that were vacant, just flipped/rehabbed in 2005-2006) I used a Substitute purchaser technique:

- Deposit is put down at Auction, I prepare a motion thru the court that a "Substitute Purchaser" will in effect take my place at auction. The SP essentially takes my place regarding closing on the Property, funds are put in escrow, Judge signs the motion, once motion is signed, funds are dispersed. It was a way to "flip" a property, without having to "close"

In whole, approximately, 35-40 Cigar butts were purchased in this timeframe. (25 were sold, 10 were kept for Long Term rental property)

- These properties were very difficult to have consistent, long-term, paying tenants, due to lower quality tenants. Cash flows were not very predictive, sporadic at best. This, coupled with expenses (Legal fees, lawyer, evictions, etc.)
- 2014-Current: The great deals in better areas are gone, there is A stronger emphasis on buying higher quality assets for a decent/ good price (14 Cap), rather than buying the cheapest property I could find, no tilt towards “quality” at all
- - I created “value” by creating an Investment thesis around purchasing non fha approved Townhouses.

Non FHA Approved Thesis

- -Properties in certain areas had been diagnosed non FHA approved due to: too many rental % owned in neighborhood, bad Delinquency rates of foreclosed properties or too many unpaid condo/HOA delinquencies, among other reasons
- Only conventional financing would be acceptable, and left certain neighborhood with very low transaction activity (no transactions for years). Akin to a stock with no analyst coverage, no volume.

Built-in Methods of Valuation

- I identify a neighborhood of interest, that is non FHA approval expired simply because no one from the neighborhood reapplied, not due to excess of foreclosure, or unpaid HOA fees.
- Apartments across the street were renting for \$1600, if I were to put a mortgage on a property in the neighborhood of question, that payment is : \$500 (this is my margin of safety) The properties I had identified were townhouses with Garage (See PIC)
- These properties were 1/3 in price from the 2006-2007
- Cap Rates when first purchasing them: 18%

Acquisition Stats of Non FHA Thesis

- First Group of Purchases 2014-2016:
 - - Average Cap Rate: 17.5
 - -
 - - Avg Price bought/Market price: .3
- Second Group of Purchases 2017-2018
 - - Average Cap Rate: 12.5
 - -
 - - Avg Price bought/Market price: .45

Long Term Rental Stats

\$ 4,000,000.00 \$ 11,500,000.00 16% \$ 620,000.00

Price Paid

Market Value

AVG Cap Rate

NOI

The Foreclosure
Auction
Acquisition
Process

Identify

Identify potential acquisition candidates
via Auction Websites



Look

Prospect all potential Properties for
Occupancy and Property Condition

What Happens when you buy a Property today?

- Typically, a 10% deposit (of the Homeowners debt) is put down (this changes from State to State)
- A Court process starts for the Paperwork of the Foreclosure file to be processed. Once, the property is Ratified, then the Auction winner has 10 days to settle. This process “ **Typically**” takes 3 months.
- Whether or not the Occupant leaves, it is still your responsibility to settle on the Property. After you settle, then you can start the Eviction process (usually takes 1-3 months)

Timeline of Acquisition if Occupied

- Sept 9- 10% Deposit is put down
- Dec 9 or After- Settle On Property, and start eviction process
- Jan/Feb or after- Occupant is evicted
- March/April or after- Renovations are done and property is put on market
- If property is Vacant, the timeline becomes a little cleaner due to no eviction process. These properties always command a premium at the Auction

Risks

- Occupancy
- Drops in Real Estate Prices
- Long ratification times
- Occupancy issues. Your Capital has been “spoken for” and you cant do anything about it
- The Timeline of Acquisition is the largest risk I see because of the variables in which you cant control. This is very different than going on ETRADE and buying 100 shares of \$BRK.b etc and the purchase is a virtual fait accompli.

What's Necessary

- Construction Crew and some construction knowledge
- Thru trial and error, identify Renovation \$\$ amounts without having a Contractor with you BEFORE you bid
- Not being concerned whether people agree with you or disagree with you, you're right because your facts and reasoning are right. My best buys have often been when I was the only bidder/ people thought I was crazy.
- A level head- I have spent 50% of my net worth in 2 weeks, I have also sat on my hands for 1 year plus with no long term acquisitions.
- People skills- If an experienced, rich bidder(s), don't like you, you will not buy a house, ever. They will "bid you up" for sport.
- Be diversified in terms of ways to profit from RE (Fix and flip, fix and rent, wholesaling, substitute purchaser)

Sept 2008

70 houses for 3 bidders, a forced selling
Mechanism

Sept 2021

70 bidders for 3 houses, a lot of
\$\$ chasing few assets



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