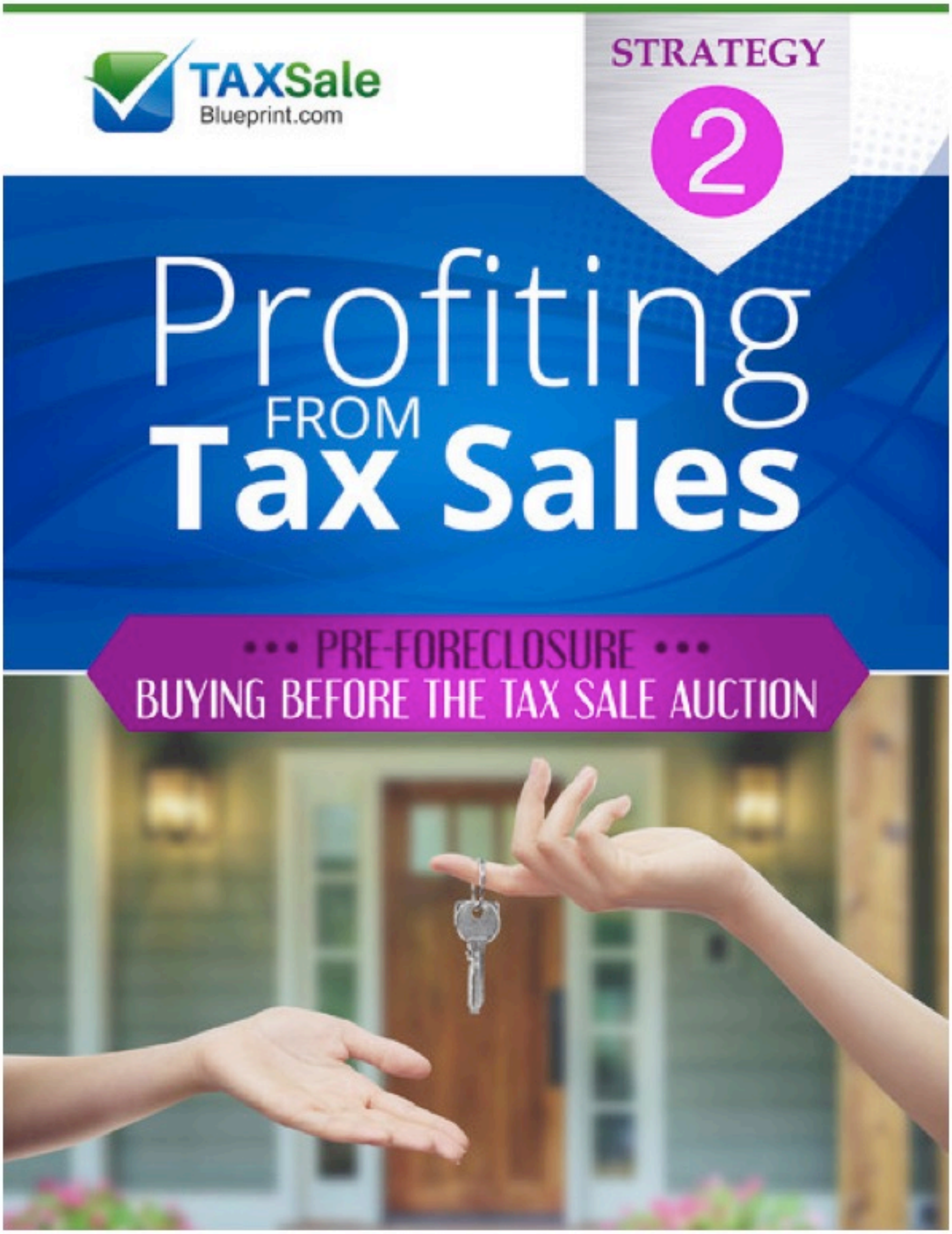
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STRATEGY
2
Profiting
FROM
Tax Sales
••• PRE-FORECLOSURE •••
BUYING BEFORE THE TAX SALE AUCTION

The Insider Pro's Guide to Profiting at Tax Sales

Part Two

Buying from the Owner Before the Auction

BY: Bob Diamond, Attorney at Law - for www.TaxSaleBlueprint.com

In part one of our introduction to tax sales strategy, you learned about *Buying at the Tax Sale***.** Now we're going to talk about the second strategy, *Buying from the Owner Before the Auction.*

Many people do not know that **the owner of a parcel of real estate is free to sell the property before the tax sale. As long as the taxes are paid prior to the tax sale the property will not be auctioned off.** Thus, if you buy a property before the tax sale and pay the taxes you can become the owner without worrying about the tax sale.

You may have heard that "motivated sellers" are good sellers to buy from. "Motivated seller" means someone who wants (or needs) to sell immediately and is more concerned about selling the property than getting maximum prices. Motivated sellers <u>are</u> good sellers for you to work with. A seller who is facing tax sale may be a motivated seller. After all they are facing the loss of their property on a specific date unless they pay the taxes. If they don't have the money they may be very motivated to make the best they can of the situation by dumping the property. So the tax sale list can be a great list to "work" – meaning a list of owners for you to contact to see if they are "motivated sellers" and want to sell.

Some owners on the tax sale list will be motivated. Contacting owners prior to the tax sale and buying from them is the second opportunity created by tax sale.

If you read my paper on buying at the tax sale you saw there were a number of challenges inherent to buying at the tax sale auction. Most of those challenges are solved by buying direct from the owner prior to the tax sale.

If you are reading this now and somehow missed my paper on buying at the tax sale, go to TaxSaleBlueprint.com and register for the "Tax Sale Blueprint PDF", and you will get a copy of my paper on Buying at the Tax Sale, which we also call "strategy 1."

In this document I will go over the process to buy before the tax sale, direct from the owner, and show you the plusses and minuses of this strategy.

The illustration below is a pictorial overview of the process of buying from the owner prior to the tax sale.

TAX SALE BLUEPRINT

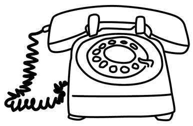
GOAL: STRATEGY 2

Buy a Property Before the Tax Sale

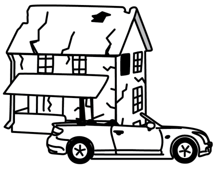
STEP 1
Get the List.

STEP 2
Direct Mail to Owners. 7 Letters or Postcards to each owner!

STEP 3
Pre-Screen Owners on the Phone.



STEP 4
Visit Owner at House and Negotiate the Deal.



STEP 5
Pay the Taxes and Close on the Property before the Auction.

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Buying Before the Tax Sale (Strategy 2) Process Overview

The process of buying before the tax sale is to get the list, contact the owners whose properties are listed for tax sale, feel them out to see if they want to sell, evaluate the properties, make offers on the ones you want and close on that property.

Let's look at the details of each step in the process.

Time is Short - Start Immediately!

First, you're going to need to get a list of properties scheduled to be sold at the tax sale. Typically, that list is going to be available thirty to forty-five days in advance of the tax sale. Get the list from the agency that holds the tax sale. I went over list getting in detail in my paper on Strategy 1 (buying at tax sale) so if you need more details, refer to that.

The list is not available sooner than thirty to forty-five days in advance of the tax sale. Since you have at most thirty to forty-five days, you will need to get started right away. You need to identify owners who want to sell and who are truly "motivated sellers."

There are typically from a few hundred to a few thousand properties listed for tax sale, and most owners will not want to sell, so you need to do effective mass marketing to reach enough people so that you find the ones who are motivated. The best way to do this is to market for sellers by sending out direct mail.

Marketing is a critical point in your business because you cannot make money unless you buy properties at bargain prices. In order to do that you must contact a lot of owners facing tax foreclosure and you must entice those owners to contact you.

Half hearted efforts will not work here and if you are going to be half-hearted about your marketing you will likely have little by way of results (meaning profits).

You should expect between a one and four percent response rate on direct mail when you send a series of seven mail pieces to each owner (meaning one to four percent of people you send a series of seven mail pieces to contact you).

Out of the calls you do get you will close some of them – exactly how many depends upon how good you are at negotiating, what you are offering and other variables. **Some owners you speak with will sell at a price that will work for you.** You will not be able to work with most sellers because they: won't be interested in selling; want too high a price; or will wait too long before contacting you and there is no time to put a deal together. This is a classic “numbers game” and the more folks you contact the more deals you will have.

Response rates to direct mail tend to be low. A one percent response rate is considered “good” in direct mail marketing. That being said, you will be reaching out to a list of people facing pressure to pay the taxes or lose the property. Reaching out to owners facing tax sale should increase your response rate.

Drip Marketing
To maximize your response rate do “drip marketing” meaning send a steady “drip” of marketing pieces. Send a “drip series” of seven letters and/or postcards to each prospect. Send a mail piece every few days, with your last mail piece going out at least ten days prior to the auction so you have time to put the deal together

To determine how to space out your mailings, take the number of days between when you got the list and the date of the auction, and subtract fourteen days. If the number of days is thirty, then over that sixteen-day time period, send out a series of seven letters or postcards. This may sound very aggressive, or even ridiculous to you, but that is what you need to do. It’s been proven time and time again, that in order to maximize your response from direct mail, you need to send out multiple contacts.

Answer Your Phone, Every Time
On your direct mail piece, make sure to provide a phone number that people can quickly and easily respond to. And, you want to make sure that you answer that phone whenever it rings. A lot of times these folks, for whatever reason, will not leave messages. Quite often they will only call once, and if you don’t answer the phone, they’re not going to leave a message. So you need to make sure that you do answer that phone whenever it rings.

Qualify the Owner When they Call
When a property owner calls, you must evaluate how motivated they are before you spend too much time with them. You have a short time until the Tax sale and you cannot spend your available time with tire-kickers. Ask questions to gauge the seller’s motivation level such as “would you be willing to sell the property for what you owe against it?” and “how quickly would you be able to move out of the property?”.

You want to negotiate with motivated sellers who want to sell, are willing to move out, and are willing to discount the price in order to sell immediately. Many owners losing their property at tax sale simply don’t want to sell at all.

Instead of offering to sell **some of these folks will ask to borrow money from you so they can catch up on the taxes. Do not lend to them** and do not spend any time on those discussions. You do not want to be the lender for someone who hasn't paid their taxes on their property. Lending is not your business - and if it were you would not lend to these folks. They will not be able to repay you. And in today's environment borrowers who cannot repay blame the lender who lent them money. And our legal system can support those borrowers in court! So don't lend them money because you're probably never going to see a penny of that money back.

Determine the Maximum Price

Assuming you have found an owner who is motivated, you need to decide how much you can pay. You will need to inspect the property and evaluate the repairs or improvements needed to calculate your offer.

If you're talking about a property to flip, assume your <u>maximum</u> allowable purchase price is 70% of its retail value, less the fix-up costs.   That means, if a $100,000 retail value property needs $10,000 worth of repairs, take $100,000, and multiply it by .70 to get $70,000, and then deduct $10,000 in fix-up costs to get you down to $60,000. So you're maximum allowable offer is $60,000.

I'm not talking about 70% minus fix up costs being a starting point in negotiating a price for the property. I mean that you have to buy that property for 70% or less. That leaves you money for profit, it leaves you money for cost over-runs and renovations, and it leaves you money for any potential problems. Most savvy investors run a similar formula.

If you are looking for properties to hold as rentals you will need to do a cash flow analysis and consider the long term prospects for the neighborhood and the demand for rentals. The "70%" rule is for properties you are buying to flip.

Estimating the Property's Value

I went over how to estimate a properties value in part one of this series. Please refer to part one which is the book on buying at tax sale.

Meet at the Property

Once you determine the owner wants to sell, set up an appointment to meet the property owner at the property to tour it so you can evaluate it, and the neighborhood as well. Before you even start talking numbers, get a walk-through of the property to judge condition and repairs.

Then negotiate your deal. If you get the price you want with the property you want go to closing.

I am not presently pursuing buying prior to the auction. It can be a good way to buy but I prefer strategy 3 (Overages) to strategy 2.   There are a number of challenges you need to deal with if you are going to buy from the owner prior to the tax sale. Lets go over them**.**

Challenge #1 - The Cost and Work in doing Mailings
You have to send a lot of mail. Even with an excellent direct mail marketing program you are lucky to have four percent of the owners call you as a result of direct mail. If you are going to do direct mail in volume engage a service to prepare and send the mail. The cost for a service to send out mail is approximately $1.00 per mailing. If you have hundreds or thousands of leads that can really add up.

Challenge #2 – Laws that Regulate Your Activity
You have to be very careful to comply with laws that regulate buying from the owner in foreclosure. Those laws can specify: the minimum percentage of property value you must pay someone who is in foreclosure; disclosures you must give; force you to deal through a third party; and more.

Some of the states that have these laws are Maryland, Oregon, Washington State, and California, among others. Legislatures and Courts have been very active in pre-foreclosures over the past ten years or so and this investing strategy is a minefield for the uninformed.

If you are going to implement a pre-foreclosure strategy first consult with a local attorney, who is knowledgeable and licensed in the state you are working in. Find out if there are any laws you need to comply with and comply with them. There are sometimes severe penalties for non-compliance.

Challenge #3 – The Folks in Tax Foreclosure Generally Respond at the Last Minute. They often are “Last Minute Larry” and “Last Minute Jane” type of people. This means you will have to rush around to put deals together. In order to put together a deal you need a week or two just to get your title insurance and set up settlement. This leads to a lot of rushing around at the last minute. To minimize this issue get the list as soon as it is available and start sending out your mail. It will often take a few mail pieces before they respond.

Challenge #4 – Time Spent Visiting with the Owner and Touring the Property
Another issue with pre-foreclosures is that it can be very time consuming to visit people in their homes. You’ve got to drive out there, listen to their story, check out the house, and then start negotiating from there. That can all be very time consuming. Since most respond at the last minute you cannot spend a lot of time with any of them. To minimize your time being wasted screen the folks over the phone and don’t go visit their home if they are not indicating a willingness to sell and to sell at a price that will work for you as an investor. Ask those pre-qualifying questions – such as “are you willing to sell the property for what you owe on it” so you will know if you have a time waster on your hands.

Bottom Line – This Strategy 2 can be a great way to get properties but it can be Time Consuming and has an Up Front Investment

That being said, this strategy does have certain advantages over buying at the auction.

Advantages of Strategy 2

Less Competition

First, compared to buying at the tax sale, there is much less competition. You're not subject to everybody just bidding out of emotion, getting auction fever, and bidding crazy prices.

No Title Problems

Second, there are no title issues because you can get title insurance. That way you will not have title issues that you'll have buying at an auction.

Time to Do Inspections

Third, you get an opportunity to inspect the house when you're buying before the tax sale. If you want to bring your builder or contractor in, you can do that, and get some estimates. You have time to do due diligence and to check out not only the property but also liens.

You Can Use a Mortgage

Fourth, you may be able to get a mortgage to pay for the property. The time may be short but there is a good possibility you will get a mortgage, especially if it's a private mortgage.

Next We Will Look at Strategy 3 – which is my favorite. Strategy 3 avoids all of the challenges with strategies 1 and 2. If you are reading this now and are not receiving this series (i.e. a friend shared this with you) go to TaxSaleBlueprint.com and register for the "Tax Sale Blueprint PDF", and you will get a copy of my paper on Strategy 3 as part of that series.

This is Bob Diamond on behalf of taxsaleblueprint.com. I look forward with sharing Strategy 3 with you.