

**Type of Property Information You Need**

There are two very important kinds of information you must get for each property: financial and physical. The financial information (current balances, monthly payments, and market value) is crucial in deciding whether or not there is enough potential profit to make the deal worthwhile. The physical information (property description, location, market conditions, and condition of the property) is important in determining the resale value and the amount of work required to fix up the property.

**Financial Information**

**Current Trust Balances.** It is important to know how many liens are attached to the property, the priority of each lien (e.g., 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>) and their current balances. The first priority lien (generally a mortgage or deed of trust) on a property is the one with the earliest recorded date, unless of course there is also a property tax lien or mechanic's lien. From experience, most properties have only one lien; but there are those with two, three, or more liens. Note that each lien on a property is subject to any higher priority liens. Thus, for example, a foreclosing 3<sup>rd</sup> trust would be subject to the balances of the first two trusts.

**Monthly Payments.** The monthly payments are important for two reasons. You must be able to calculate the arrearages based on the number of months of default. You must also be able to calculate how much the monthly carrying costs will be prior to selling the property. The arrearages are calculated by multiplying the monthly payment plus late fee by the number of months of default. It also includes the lender's attorney fees and advertising costs.

**Market Value.** The market value of a property can be derived from one or more of the following three factors: appraised value, values of comparable properties, and assessed value. The most recent appraised value is the best indicator. An appraiser examines the property, compares it to three identical or similar properties (comparables) in the same neighborhood that have sold within the past six months, and then calculates the most probable value.

The second best (and most probable) approach is to ask a realtor to provide you with three or more listings of similar neighborhood properties and to help you calculate the market value based on the listings. Ideally you should use listings of properties that have sold within the last 6 months.

The final resort is to use the assessed value as determined by the local tax assessor. The assessed value is usually lower than the market value, and is not generally considered to be the most reliable indicator. Consider working with a realtor who can assist you with this valuation process.

**Physical Information**

**Property Description.** The property description consists of many elements that must be considered before developing a true picture. The elements include:

- Number of Bedrooms and Baths (e.g., 3BR, 2.55BA is the abbreviation for 3 bedrooms, 2 full & 2 half baths.)
- Year Built, Square Footage
- Number of Levels
- Class (e.g., single family, townhouse, condominium)
- Style (e.g., colonial, split level, split foyer)
- Utilities (e.g., central a/c, heat pump, gas heat)
- Features (e.g., fireplace, garage, deck, pool)

You should compare this information with that of very similar properties which were recently sold (comparables) to establish the market value.

**Location.** The location of a property is the most important factor affecting your decision to buy or sell it. A property in a great neighborhood tends to sell very quickly and usually at a price that is close to market value. Conversely, a property in an undesirable neighborhood takes longer to sell and generally at a below-market price. This implies that you would have to offer a huge discount to sell such a property quickly.

As you develop experience with your foreclosure investment territory, you will learn which neighborhoods are hot, which are okay, and which you should avoid. You should therefore focus your search for properties in relatively popular neighborhoods. Also try to find out what type of properties (e.g., 3BR, 2.5BA, split-level townhouse with garage) sell quickly in those neighborhoods.

A property's location is uniquely identified by its legal description (e.g., lot 99, section 100, subdivision Ashby Farms). The description is a geographical reference that defines the boundaries of the property, and is recorded on all contractual documents for a given property to avoid ambiguity. As you would expect, foreclosure ads contain legal descriptions. Most foreclosure ads also include the street address, which makes it easier to begin the research. Otherwise, you would have to take a trip to the local courthouse to review the land records. You would then be able to translate the legal description into a street address.

**Property Condition.** The condition of a property is an important factor in your investment decision and can be classified as follows.

- Excellent: Move-in condition – requires minimal amount of repairs.
- Good : Minor cosmetics – may need new paint, floor tiles, and carpeting.
- Fair: Handyman/fixer-upper – may also need new appliances, kitchen cabinets, roof repair, and window or door repair.
- Poor: Structural damage/shell – may need structural renovation and major electrical and plumbing overhaul. This could include new floorboards, roof, and support beams; new wiring, sockets, and circuit breaker panel; and new pipes, furnace, and water heater.

Note that these repairs are merely examples of what you can expect when checking out various properties. You must examine each property on a case-by-case basis. Hire a home inspector if you're not completely comfortable doing this. Better yet, hire a general contractor who would be interested in doing the repair work for you.

Obviously the classification of a given property determines the extent as well as the cost of its repairs. You should focus on properties within the first 3 classifications, since the intent is to transact foreclosure deals as quickly as possible by minimizing costs.

**Market Condition.** The condition of the market is based on two elements: desirability of the neighborhood and amount of inventory (number of properties for sale) in the neighborhood. Properties in more desirable areas will, as before, sell faster and with better profits for you. Likewise, for properties in areas with low inventories. Of course, since you plan to offer great deals to your potential buyers anyway, you should be able to mitigate these conditions. Market conditions can be categorized as:

- Excellent - seller's market, properties sell quickly for close to market value
- Good - stable market, properties sell within 3 months usually at a 5% discount
- Fair - buyer's market, properties sell within 3-6 months usually at a 10% discount
- Poor - really bad market, properties take 6+ months and bigger discounts to sell.

Obviously, the excellent or good markets yield the best profits. However, you can still get good profits in a fair or poor market by offering the appropriate price discounts.

Property Information Form			
Contact Date: Jan 20		Source: Journal Newspaper	
Name: Clint E. Wood		Phone (work):	
Address: 01234 Main Street		Phone (home): (000) 555-0000	
City/State: Falls Church, VA		Phone (other):	
	Balance	Payment	Arrears
First	\$48,000	\$ 600	\$3,600
Second	\$42,000	\$ 400	\$2,400
Third	\$	\$	\$
Other Lien	\$	\$	\$
Total	\$90,000	\$1,000	\$6,000
Foreclosing Lien: 2 <sup>nd</sup>		VA, FHA, Conventional: Conv	
Auction Deposit: 10%		Attorney Name: Jonathan Doe, Esq	
Auction Date/Time: Feb 10, 9:30am		Attorney Phone: (000) 555-1111	
Owner Asking Price: \$ n/a		Owner Down Payment: \$ n/a	
<b>Location: (Good)</b> Falls Church, Virginia Just off Route 50 and Highway 495 Near Fairview Marriott Quiet, clean neighborhood		<b>Property Description:</b> 3 BR, 2.55 BA 17 years old, 1500 Square Feet 2 level townhouse with finished basement Brick and aluminum siding, gas heat	
<b>Condition: (Fair)</b> Lots of trash, worn carpet, dirty walls, some holes, 2 broken windows, appliances in bad condition, front needs landscaping, rear fence needs paint		<b>Market: (Good)</b> Property value \$160,000	
Other Useful Information (circumstances, appointments, etc.):			

Sample Property Information
<p>This form includes information from an actual deal. The contact information has been changed for privacy reasons. You can develop a form similar to this one or you can create your own custom form. Use it to record the information for each property you decide to pursue. This may seem like extra work, but it is actually very helpful. You will appreciate having all of the facts and figures of a given property in front of you when you get ready to do the analysis.</p> <p>The form shows a property with two trusts. In this case, the 2<sup>nd</sup> was the foreclosing trust, which meant it was subject to the \$42,000 1<sup>st</sup> trust. Therefore the minimum amount required to satisfy the total debt, including the arrears, was \$96,000. Adding approximately \$1,500 in attorney's fees and settlement costs to buy the property pushes the total to \$97,500. Given a value of \$160,000, the debt ratio is only 61%, which makes it a very good deal. [For additional details, see Fact Sheet #F106 "How to Analyze Foreclosure Deals"].</p> <p>This property did sell quickly due to a good location and a good market, although it did require quite a bit of repairs due to its condition. Note that the owner (or lender) asking price and down payment did not apply here since the property was bought at an auction.</p>