

Buying foreclosure properties at the courthouse steps

Contributed by Flower
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Last week I went to the monthly foreclosure sale at the courthouse steps. It was my first time attending a foreclosure sale and these were my observations.

When I first arrived, the sheriff was standing higher up on a bench and there were about 20-30 people around him. An assistant passed out a handout of the properties that were up for auction. You are to arrive with cashier's checks or money orders on hand to purchase the properties on the spot and be given the title. There were 14-15 properties on the list with 2-3 of them being struck out and the rest available. As the bidding began there was a common theme that began to arise. There were many spectators and those wishing to bid and then there were those that actually had the cash to buy. It was easy to note whom were the investors in the crowd. Most of them stood together as they all knew each other and had pre-printed lists that they had brought with them of the properties with comps, maps, and details. They didn't bid on any of the properties in this case all aced lots that were up for grabs at \$1500 each but instead waited to bid on actual houses. A certain man did pick up about 5- 7 lots all within the same subdivision. This man was an interesting figure. He was a lean, hispanic man whom seemed to be in his late 30's-early 40's. He wore a soiled mechanic's jumper suit and had various tattoos and looked a bit scruffy. He didn't seem the kind of person whom would have the cash to buy these properties all at once yet he did. The investors in the crowd mentioned that he was probably buying to build small houses on the land to sell or rent out. I didn't ask. There was one property or piece of land that did gain interest from the public and the bidding started a bit higher at \$2500. It ended up going for about \$5000 for that piece of land to a couple in the crowd. (read more)

After the sherrif's auction ended, many people left and a lady arrived from an attorney's office with several houses for sale. Those houses went fast and were bought up mainly from the investors whom quickly outbided the normal folks in the crowd. These houses were also on the handouts they had brought with them and they knew which ones they were going to buy. A bit of a rivalry outbidding war ensued from time to time within the investors as they poked at each other when they saw that the other one wanted that property so they would bid to make the price go higher while a different investor would jump in to see if he could get in on the action. They all had their limits depending on the beginning price of the property, costs to fix it up and the profit they were looking to make. One particular property that really got alot of attention was positioned in an up and coming area of town, looked really good (they already had a picture of it in their handout), and bidding started at about \$112,000 while it was appraised for tax purposes at about \$155,000. The investor I stood next to, advised that I should add another \$8,000 to fix it up (the round number he estimates for most properties he buys) and he wouldn't pay any more than \$120,000 for it. The property went for about \$122,000 to one of the investors whom was purchasing it to owner finance out. This investor purchased one other property at the auction spending a bit over \$200,000 within a two hour time frame all in cash (or cashier's checks to be exact). The two properties he bought were probably appraised at over \$300,000 combined making it a really good shopping day. Several investors I spoke with were there to purchase properties to use as rentals, some to outright turn around and sell, and others to owner -finance out. A very good strategy during this time that homeowners can't get conventional loans. One conversation I had with some of the investors is how long gone were the days that you could purchase several houses for \$30-50k a piece and now you were lucky to see one or two houses on the list for \$100,000. I explained that most likely this was happening to due to investors choosing to contact the property owners during the pre-foreclosure stage and getting the deals then instead of waiting to arrive at the courthouse steps. Many of the investors did not bid for the simple reason of not seeing a good deal in their price range and did not have the capital to purchase the good buys that were available. Many of the normal folks in the crowd were there to buy a property for themselves and soon realized that they needed to come ready to play with the big boys if they wanted to take a title home. Several things to consider if you want to attempt to purchase a foreclosure at the courthouse steps to use as an investment property..

1. Be educated. Learn as much as possible about the process and the property you want to bid on. There are several services in your area that will do all the background research for you and sell you a list of the properties that will be auctioned each month.
2. Calculate your costs involved with purchasing the property. What will it cost to fix it, back taxes, any liens that you need to pay off, etc.. Figure this in to your bidding cap and have a high number you will stop at before it's not a good deal for you.
3. Be ready to play. You will need to have all the money upfront to purchase there on the spot. It will need to be in the form of money orders or cashier's checks. If you personally don't have these kinds of funds, that's when you can use other people's money to invest with through forming trusts, rolling their 401(k)'s into self- directed IRA's, etc.. Find investors whom have the cash but don't necessarily want to do the work.
4. Have your exit strategies in place when buying your property. What investing strategy will you use? Is this a good rental property, resale, owner-finance, lease to own, etc.? Who were the other investors interested in it? Do you have their contact information. You might need to call them up to buy the property from you if your plans fall through.

You can learn more about how to become a successful real estate investor at the South Texas NR Intensive in Austin, TX on March 21st. Call 1-866-735-0937 to receive your FREE complimentary ticket and learn more!