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BANK-OWNED BUYER SURVIVAL SKILLS: OUTWIT, OUTLAST, UNDERBID

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Experienced Investors Share Secrets to Buying Unlisted & Listed REOs

As a real estate investor specializing in low-end condominiums in Orange County, Calif., Lin He knows the value of doing his homework and relationship building. They are the two key factors that have given him a jump on his competition when it comes to buying bank-owned properties — either before or right after they are listed on the local multiple listing service.

“Buying pre-listing REOs definitely is a viable strategy. In fact, it's my major property acquisition strategy for me,” said He. “It takes time to develop a relationship with the REO agents. They need to be able to trust that you’ll perform.”

The relationship strategy has worked many times for him. So well in fact, that sometimes he’s able to submit an offer immediately when the property hits the MLS, and other times he’s been in the situation where he doesn’t even have to make an offer up front. The agent just sends him the paperwork on the deal and he decides whether he wants to take it or not.

His focus has been not only on getting to know the key REO agents in the areas he buys, but also on building good relationships with the local homeowners associations, the property management companies that represent the HOAs, and even the neighbors surrounding the condos he owns. These relationships translate into a better chance that he’ll know early on about units headed into the foreclosure process.

Outwit Other Buyers

An investor in REO properties for 20 years and a well-known coach to real estate investors nationwide, Andy Heller believes working the unlisted bank-owned market is good for as much as a 25 percent to 30 percent discount before the property hits the MLS.

Utilizing a foreclosure listing service such as RealtyTrac, Heller teaches his students how to scan the lists of pre-foreclosure properties looking at location, loan amount and loan type as key criteria for sorting through properties. Next, the investor should identify 15 to 25 potential properties that are expected to go REO based on location.

While the larger banks don’t have to talk with you, and the chance of an investor getting in with the bank directly are slim and none, that strategy might be feasible with smaller, more local or regional banks. The key is timing, Heller noted.

“What you want to accomplish is to have the bank view you as an alternative to their normal structure of how they do things,” he said.

He suggests a three-step approach:

Call in the days following the foreclosure sale but before the bank begins its normal process to market the property.
Make a specific property inquiry for a single property based on your identified property list. Tell them you’d like to make a quick sale offer which will separate you from other investors.
Say the right things. After telling them you’d like to make a quick sale offer, ask them for nothing more than access to the property and tell them you should have an offer on their desk in two to three days after that.

Heller said he calls 15 to 20 banks and expects that two or three will give him the time of day and grant him access to the properties. He ends up buying one or two properties a month that way.

Outlast the Lenders

Although he's an investor, Sham Reddy spends most of his time working as a real estate agent representing other investors in Dayton, Ohio. Given the plentiful inventory of properties available in the area, Reddy said he trains his investors to wait on REOs until after they've hit the MLS and been on the market for at least 30 days before making a move.

"The longer the property is on the market the better negotiating position we have," said Reddy, who is president of both the Greater Dayton Real Estate Investors Association and the Ohio Real Estate Investors Association.

Reddy said one of his key strategies for working REOs is following the sheriff's sales and keeping track of the results. He knows that it usually takes four to six weeks before the property eventually ends up as someone's REO listing (VA and HUD properties take a little longer to show up on the market).

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