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### Inman News Part 2 of 3 - Buying those foreclosed homes

Wednesday, 12 September 2007

#### Buyer beware: Foreclosure sales not for everyone

Real estate buyers are taking note of the rise in foreclosures in many housing markets across the country, but foreclosure properties aren't for everyone, said David Levin, principal for David Levin & Associates, a Florida-based real estate consulting firm. "There are real risks in the foreclosures business ... in a normal market. If you're not schooled in this stuff it's not for the faint of heart," said Levin. During the days when home-price appreciation and sales were setting records month after month, investors could profit by scooping up properties for a quick flip. Foreclosures may lure buyers because of the potential for a discounted price, but there can be other associated costs. "I'm keeping my fingers crossed that people don't get seduced," he said.

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### Buyer beware: Foreclosure sales not for everyone

#### Part 2 of 3: Navigating today's real estate market

Tuesday, September 11, 2007

[By Glenn Roberts Jr. Inman News](#)

*Editor's note: Sometimes it pays to learn from others, and in today's real estate market lessons can come at a high price. This three-part series examines hurdles for homeowners facing foreclosure, buyers who are interested in buying those foreclosed homes, as well as options for standard borrowers looking to purchase a home. (Read Part 1, "[Upside down: Homeowners share lessons in foreclosure](#)," and Part 3, "[Lenders still finding ways to finance home purchases, refis.](#)")*

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During the days when home-price appreciation and sales were setting records month after month, investors could profit by scooping up properties for a quick flip. Foreclosures may lure buyers because of the potential for a discounted price, but there can be other associated costs. "I'm keeping my fingers crossed that people don't get seduced," he said.

Competition for foreclosure properties can sap some of the best bargains from the bunch, and Levin said that investors may hit a wall in trying to sell or rent out the foreclosure properties they purchase during a slow market. "Even the rental market becomes a little bit iffy. So now, suddenly you're competing with all of these speculators, trying desperately to get cash flow."

He noted a gradual shift among foreclosure investors to buy up properties earlier in the foreclosure process. Competition among investors for real estate sales by auction on the courthouse steps has "pushed the price up, which compressed the margin," Levin said. That led some investors to step back and target an earlier phase in the foreclosure process.

In an online article, Levin said that slumping real estate sales and prices have created problems in the foreclosure market.

"Expect the lenders to take back significant amounts of inventory as the foreclosure investors step back. With uncertainty and instability in the markets, foreclosure investors will change their investment strategy. Namely, investors will hold back and wait for the banks to take back property," Levin said.

A credit crunch in the mortgage industry may also push some would-be foreclosure investors to the sidelines, he said, as lenders have tightened their underwriting standards.

The bottom line, Levin concludes, is that "banks will be left holding the bag" as they take on more foreclosures because of investors' declining interest.

Pamela Dela Cruz, a Realtor for RE/MAX Accord in the San Francisco Bay Area, said she has been working with more sellers who are in a foreclosure process, and she has seen more buyer interest in the short-sale properties she is handling. In a short sale, the homeowner attempts to avoid foreclosure by working with the lender to accept a sale offer that is less than the total amount due on a home's mortgage.

"I have had twice the amount of people looking at short-sale listings rather than just the normal sales," said Dela Cruz. Buyers do need to be more patient with short sales, as it can take several weeks longer to close short-sale transactions, she said.

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The inventory of homes owned by HomeVestors of America Inc. franchisees has been climbing, said company president and CEO John P. Hayes.

And his company, well known for its "We Buy Ugly Houses" billboard ads and a pursuit of distressed properties and properties in disrepair, is now testing out a new slogan: "We sell luvly houses."

For most of its 11 years in business, the national real estate market has generally been a seller's market, Hayes said. "We never worried about selling properties. This year, we (were) ending up with more inventory than we were comfortable with. The problem is not that there aren't buyers -- the problem is that buyers can't get the money," he said.

HomeVestors has its own in-house lending service and services loans for its franchises, and in the past 30 days the company launched an investor note program that offers loans to investors who buy houses from the company's franchisees.

"We have \$75 million-plus available to loan, so we don't have a shortage of money," Hayes said. There are about 270 HomeVestors franchises in 34 states, and last year company franchises bought about 7,100 properties.

"About half of the properties purchased by HomeVestors are sold to other investors wholesale, and about 38 percent are sold to consumers -- "usually first-time home buyers," Hayes said, while the franchisees retain a small percentage of the properties to serve as rentals.

Up to 10 percent of HomeVestors purchases help homeowners avoid foreclosure, the company also reported.

While HomeVestors will consider purchasing properties in any stage of foreclosure, Hayes said that preforeclosure properties are most desirable because it's easier to prevent foreclosure at that stage. While he said he didn't know the statistics, he believes that the number of foreclosure properties purchased by the company is growing.

"The worse (the market) gets the better it gets for us. We also have to be very cautious that we don't take more of these properties than we can responsibly handle," he said. "We have aggressively stepped up our campaigns to sell property."

In some cases, banks have approached HomeVestors to notify the company or its franchisees about an available supply of bank-owned, or REO (for real-estate owned) properties. "Until recently it didn't appear that banks were real serious about selling

those properties. Now, as the numbers are starting to pile up, I think that banks are starting to get more serious because our franchisees are starting to get those calls."

Levin said he believes the market is still in a transition at this point, and that the market will need a big dose of reality -- including a drop in real estate prices -- to return to equilibrium.

"I think everybody's beginning to realize (the downturn) was deeper than they thought it was. You never know when you hit the bottom or top until you've passed it. It took a few years of frenzy to get where we are -- it's going to take a couple of years to work our way through it," he said. "Everything that came together to make the bubble what it was through 2005 are now all the things conspiring against the market."

Ken Kulpa, a Northern California real estate professional who operates the [MLSPiusForeclosures.com](http://MLSPiusForeclosures.com) Web site, works with foreclosure properties for both sellers and buyers.

Preforeclosure properties tend to be the best deal for buyers, he said. "REOs are an OK buy, but I think preforeclosures are better. Banks want to get them off of their books -- they don't want to foreclose," Kulpa said. When he's representing sellers in a foreclosure process he tries to get an offer "that I think the lender will work with," he said.

Some investors will make purchase offers that grossly undervalue the property, Kulpa said. "I just don't feel right about that. The banks wouldn't accept that on a short sale," he said.

Even so, properties in a foreclosure process will typically be priced a bit lower than a typical for-sale home, he said. "Whether it's the bank or the person needing to sell, you do have to undervalue it -- generally about 10 to 15 percent," he said.

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