

# How to Find & Buy Bargain Homes Below Value

In a previous report, I have explained how important the right property is to your success in investing. The right property attracts the right tenant! This report will explain how to find and acquire the right property. What I have found is that half of the battle in investing is identifying a home that can be purchased below value. The problem is that almost every buyer is looking for the same thing. So, in most cases you are competing with every other buyer to find these bargain properties. Typically when you find a property that is below value, you are in competition to buy the home. When I say competition, I mean that there are other offers from other buyers on the same property. To win the multiple offer game, in most cases, you need to be the highest bidder. Obviously, when you are forced to pay more for the home, your profits are reduced accordingly. My suggestion to you is to stop:

## **Competing with Other Buyers for Homes**

Here is a real life situation that just happened in my office last week. (As you probably already know, we are a real estate brokerage that specializes in helping real estate investors find and acquire investment properties.) One of my team members was working with an investor client that was looking for a home that could be purchased below value. They spotted a home that was just listed. They viewed the home the same day it was put on the market. The investor recognized the value and made an offer that was over asking price. Before the Seller accepted our client's offer, several additional offer poured in on this home for the Seller to consider. The Seller selected a different offer, and our client lost the home. Our investor client lost this home because of competition from other buyers. You can imagine their frustration. They made an offer over full price for the home on the first day it was listed for sale and still lost the home!

There is a better way to approach your real estate investing that will virtually eliminate your competition when looking to buy a home.

The first step to eliminating the competition is to set up and follow a property filtering system. The system you should follow is one that will highlight properties that would make the best candidates for further investigation. An example of filtering system would be to compare it to some of the websites that perform stock screens. If you invest in the stock market, you probably have visited a few websites that will screen the entire universe of stocks and provide you with a short list of stocks that you could investigate further. These stock screens search all of the listed stocks looking for certain criteria. If a stock hits all of your criteria, it has passed the screen and is worthy of your time. You can then just focus on studying the short list of stocks that pass the screen vs. the entire universe of stocks. As you can imagine, the biggest benefit of a filtering system in both stock and real estate investing is timesavings.

## Use a Filtering System to Save Yourself Time & Aggravation

The starting place to your system would be the entire population of homes in your specific geographic area. Select an area that is within a close proximity to your home. The reason I recommend investing close to your home is because it will save you a significant amount of time in managing your property during your ownership. If you have to drive a long distance, you probably won't do as good of job managing your investments.

For most people, the next step that they take is the wrong one. They try to identify the homes that are offered below value within their geographic area. This is where all of the competition occurs. This is exactly what everyone else is doing. Don't do this!!!

### Your First Filtering Screen: Motivated Sellers!

In every market around the world, a certain percentage of all Sellers will be motivated. Motivated Sellers are motivated because of personal circumstances such as a divorce, a job loss, a vacant home, two mortgage payments, a job relocation and so on... These homes are not usually listed for sale at extremely low prices. Therefore, the other buyers usually don't even inquire about them because their too busy looking at the lower priced homes.

*The best way to identify motivated Sellers is to screen for homes that have been on the market for longer periods of time.*

As I mentioned above, motivated Sellers are motivated because of personal circumstances. Many Sellers create a personal circumstance that makes them motivated. The best example I can give you is to consider this scenario:

*Mr. Smith and his family have outgrown their current home. So they started looking for a new home, but didn't think that they would find anything that they liked so quickly. As usually happens, Mr. Smith and his family stumbled across the perfect home for their family. Because they didn't want to loose this lovely home, they bought it without first selling their current home. Because they now have purchased this new home, they list their home for sale. Unfortunately, Mr. Smith makes the same mistake that the majority of Sellers make and he overprices his current home. His current home is now vacant and is still for sale with no offers. Because Mr. Smith is now on the hook for his new home's payment and his old home's payment, he has become a motivated Seller. In essence, Mr. Smith created a personal circumstance that has made him motivated.*

In many markets, a home that is priced properly will sell within the first 30 days of being on the market. Most new listings have the most buyer traffic during the first 30 days on the market. After the first 30 days, the listing is old news, so to speak. The reason why the listing becomes old news is because the majority of the buyers looking in that area and price range have already seen the home. If the Seller over prices their home in the beginning, the majority of the buyer traffic will pass on the home because of it's pricing.

So, in essence, the Seller has missed the boat by offering an unattractive price during the best period of the marketing time. After 30 days on the market, the only way for a Seller to increase the buyer traffic is to drop their asking price. However, at this point it usually is to late. Point to remember: When you are selling a home, do not overprice the home in the beginning! I promise you that it will cost you substantially in your ultimate selling price.

When I say longer market times, I mean homes that have been on the market longer than average. Have your Realtor perform a market analysis on your geographic area. In this analysis you should be looking for two things:

1. The average sale price of the homes that you are considering investing in
2. The average days on the market for these homes before they go under contract.

In my area, homes are usually on the market for around 80 to 90 days. Therefore, I like to narrow my list of investment candidates to homes that are on the market 80 days or greater. When you are looking at homes with longer market times, you are more than likely one of the only buyers looking at the listing. Remember, the listing is old news to the majority of buyers because they have already walked through this home. This is the best way that I know of to eliminate competition when buying a home.

Now, put yourself in the Seller's shoes. Their home has been on the market for three months. They have had to keep their home clean, they have had to be inconvenienced in their lifestyles to show the home, and they are getting fed up with the process. In addition, in most cases, they are starting to doubt if their home will actually sell because they don't have any offers to consider. Or, maybe they had a lower offer earlier that they rejected and are having second thoughts on. Can you see how this is the best type of Seller to be working with. These Sellers are usually incredibly flexible on their price because of the personal circumstance that they have created for themselves.

**I am going to share one more secret that will help you immensely.** When a home is listed for sale with a Realtor and the home has been on the market for sometime. Not only do you have a motivated Seller on your hands, but you also will have a motivated Realtor. Most listing contracts are for three, four or six months. If the home hasn't sold and the listing contract is about to expire, the Realtor will lose the listing. This Realtor has worked for several months investing their time and money into marketing and showing the home. They will usually settle for a smaller piece of the pie to recover their costs, than no pie at all. What I mean is that they will more than likely be willing to lower their commission to get the home sold. If they lower their listing commission, the Seller can afford to sell the home to you at a lower price.

### **Your Second Filtering Screen: Vacant Homes**

As you can imagine, a vacant home is a big liability to whoever owns it. They have to maintain this home by cutting the grass, trimming the bushes, shoveling snow and so on. They have to pay the property taxes, insurance and utilities and mortgage payment. They

still have all of the obligations of owning this home without having any benefit. Every month that their home sits on market without a sale, it costs them more money.

Have your Realtor search for homes that are vacant. In most multiple listing systems, when a home is listed for sale, the Realtor has to list if the home is occupied or vacant. By searching on this variable, your Realtor can provide you with a list of vacant homes for sale in your area. If your calling For Sale By Owner homes, you should be asking the Seller if the home is vacant before you even go to see it. If they still live in the home, chances are that they aren't very motivated yet.

Another key to For Sale By Owner homes is to let them ripen a bit. When I say ripen a bit, I mean let them sit on the market for a while before you spend any time investigating them. When you get your newspaper, put your classified advertisements in a pile. After several weeks, go back and look at the older For Sale By Owner advertisements. Call the Sellers of the homes that look like good candidates. By letting the For Sale By Owners age for a while, you are letting them become more motivated. As you can probably gather:

### **Longer Market Time Increases Motivation**

Yes, you can and will loose some nice homes by letting them age for a while. However, you aren't competing for the home with other buyers and you probably will be working with a flexible Seller.

In our office, we downloading each and every week all of the homes advertised in the local newspapers as For Sale By Owner. We compile this list and email, mail or fax it our clients for their review. We keep these weekly files for future follow up to help our clients identify motivated For Sale By Owners. We also try to cross match the list of For Sale By Owner Homes with the public records to see when the Seller purchased the home and for what price. We include these details in our weekly list to provide our clients with more information rather than less. If you can identify a home that has been on the market for sometime, is vacant and has a low mortgage on it, you should definitely investigate it further.

### **Your Third Filtering Screen: Search for Key Words**

Another way that we identify bargain homes is to search for key words. We search the entire inventory of homes listed for sale with Realtors for certain key words. Here are the top 20 key words that we search for:

1. Priced Below Value
2. Seller Needs Quick Sale
3. Price Reduced
4. SARO which means Submit All Reasonable Offers
5. Appraisal (looking for homes priced below appraisal)
6. Divorce

7. Vacant
8. Motivated Seller
9. Desperate
10. Needs (home needing minor work)
11. Bank Owned
12. Foreclosure
13. Estate (Home that is being sold to close out an estate)
14. Fixer Upper
15. Relocation (Seller is forced to Sell due to a Relocation)
16. HUD
17. REO (Real Estate Owned by the Foreclosing Bank)
18. TLC (many homes are listed as needing "Tender Loving Care")
19. Allowance (Some Sellers offer a buyer an allowance for closing costs or repairs to the home. I have found that Seller's offering an Allowance of some sort are motivated.)
20. Negotiable

Plus one more!

21. Seller will listen to all offers. Or, All Offers Considered

We have had the computer guys program searching software for us to be able to search for these key terms. The computer screens all of the homes and pulls out any homes that have any of these key words. Once these properties are identified, they are emailed to our investor clients for further consideration. Ask your Realtor if they have the ability to search for key terms. If they do, give them a list of key words to screen from. By using this screen, you will pinpoint additional bargain home opportunities. If you don't know a good Realtor, give us a call; we can refer a good Realtor in your area that will be search by key terms.

### **Your Fourth Filtering Screen: Expired Home Listings**

These homes can be an absolute gold mine! An expired listing is a home that was listed for sale with a Realtor and didn't sell. The listing contract has expired on this home. If you have a good Realtor, they can set their system up to send you a daily list of all the expired listings. Everyday, there is a new batch of homes that have expired.

For our clients, we have programmed our system to automatically search and download expired listings every day. For homes that match our client's criteria, the system will email them an update with the homes particulars.

In our area, over 50% of the homes listed for sale, do not sell the first time that they are on the market. What we have learned to do is to watch and wait for these listings to expire. Because these homes are technically not for sale anymore when they expire, there is absolutely no competition from other buyers.

## **You can attack expired home listings without any other buyer competition!**

Those are the Four Main Filtering Screens that we use to highlight probable candidates for further consideration. Understand this important point, we don't layer the filtering screens. What I mean is that we don't run the screens on top of each other.

We run each screen to identify the best properties in that particular screen. We then combine all of the best properties from each screen and narrow our list down from that point. With this approach, we get to choose from the best homes selected from the best filtering screens.

The whole goal of the screening system is to highlight properties that might have a motivated Seller that you can buy without having to compete with other buyers. If you are in the Northeastern, Ohio area and would like us to set up our system to run these four property-filtering screens for you in your area, please give me a call at (440) 918-0047. Our system was designed to notify you on a daily basis of the homes that pass these four screens.

From the above information, you will probably see that the best way to approach your real estate investing is to do the exact opposite that everyone else is doing. Stop looking for the lowest priced homes, because that's what everyone else is doing. My mother used to tell me, "Work Smarter, Not Harder". My hope is that you can learn from these strategies to work smarter and save yourself a tremendous amount of time.

## **How to Buy the Right Home Below Value**

At this point, I will assume that you have used the four property filtering screens above to identify a motivated Seller. Than next step is to negotiate the sale to get the lowest possible price. I will try to summarize a few of the techniques that we use to help our clients get the best value when acquiring a property.

The first step in getting the lowest price when you buy a home is being able to walk away from it. If you don't let yourself get emotionally attached to the property, you will increase the odds of getting the lowest possible price when you buy a home.

The biggest key to your success is to be hesitant in every encounter with the Seller. The rule of thumb in negotiating is:

***Whoever Calls the Other Party the Most Loses!***

When I say hesitant, I mean that you shouldn't be beating the Seller's door down. You should hold back and let the Seller come to you. I have witnessed many buyers and Realtors show motivation by continuously calling the other party. Understand that when you are the one calling, you have lost control of the negotiation. So, if you go to see a home that is For Sale By Owner, you should always leave your name and number. Your hope is that the Seller will call you back after your showing. If the Seller calls you, play

hesitant. Say something like “Well, I liked the home, but I don’t think I can afford your price!” When you say this you are telling the Seller that you are interested but he has to work to get you to buy the home. After you use this technique, stop talking and let the Seller respond. In most cases, the Seller will ask you what you price you are willing to pay. Another rule of thumb in negotiating is:

**Whoever Says a Number First Loses!**

When the Seller asks you what price you are willing to pay and you answer \$XXXX, you could be leaving money on the table. Never name a price because the Seller may be willing to sell the home to you for less. If the Seller asks you what price you would be willing to pay, you should respond, “I am not really sure, what is the best you could do?”

At this point, the Seller will say a price lower than what they are asking. You should than say something like “If I could close and transfer title quickly, could you go any lower?” If they ask you how much you are thinking, say, “I am just trying to figure out a way to be able to afford your home, are there any other options?” Notice that you still haven’t named a price. If they offer you a lower price with this technique, tell them that you need to think it over and that you will get back to them.

Now, wait again for Seller to call you. Remember, you are working with a motivated Seller who has been on the market for a long time. Your patience will be rewarded. If the Seller calls you, you got it! At this point, you could say, “Over the weekend, we walked through another home that seems to be a better value. I might be able to swing your home if you could sell it for \$XXXXXX.” Obviously, your price will be lower than what the Seller has already committed to in your earlier discussions. The only time I ever recommend giving the price is when you have the Seller at their break point. At this point, I name the price and see if we have a deal.

Another benefit of this technique is that you don’t have to low ball the Seller on price. Because you aren’t naming a price until the absolute end of the negotiation, you don’t run the risk of upsetting them with a low offer. Also, by dragging out the negotiation, you are getting the Seller to invest more time into you. Most people don’t like to waste their time, so they will work harder to be rewarded for their efforts.

Well that about wraps it up! I hope that this report has been helpful for you. If you have any questions on these strategies, please feel free to call, or email. I would be happy to help in anyway that I can!

Sincerely,

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