

Part-time investors make millions in real estate

By: Bob Bruss

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During the last 13 years, "Buy Low, Rent Smart, Sell High" co-authors Scott Frank and Andy Heller have been investment partners buying foreclosed houses from lenders, fixing them up, renting them and selling to their lease-purchase tenants. But this is just part-time work for the partners who work full-time as executives for large corporations.

Together, these investors have bought, rented and sold over \$10 million of residential property. Their "modus operandi" is to buy bargain-priced foreclosures after the lender has taken the property back from a defaulting owner. They dislike trying to buy direct from defaulting individual owners because of the seller emotions involved.

The authors recommend acquiring houses for investment in middle-income neighborhoods. The reasons they like buying residences from lenders is it's a purely business transaction, and lenders often become highly motivated to get the foreclosed property off their books, even at a bargain price.

Frank and Heller explain how they arrive at their offer prices. Their starting point is the house's market value if it were in good condition. From that valuation they subtract a 15 percent "investor discount." That means they earn their first profit at the time of purchase.

Next, they subtract repair and improvement costs, closing costs, finance costs, taxes and insurance during the holding period, marketing expenses, utilities and mortgage payment expenses.

The result is the maximum "ceiling price" the authors will pay for the house. But their initial purchase offer is usually 10 to 25 percent less, allowing room for negotiation. Each offer is accompanied by a one-page "cover letter" to explain to the seller how the buyers arrived at their offer price.

Frank and Heller explain they don't want to be known as "lowballers," but their first offers are usually rejected. However, they keep coming back a month or two later when the lender often becomes more motivated to sell.

The authors emphasize the importance of building a solid reputation with lenders and REO (real estate owned) real estate agents for performing as agreed. They include inspection contingencies in their offers just in case the house has unexpected defects.

The unique formula of Frank and Heller is to fix-up houses as quickly as possible, using small low-overhead contractors with whom they have done business repeatedly, then offering the houses for rent on three-year lease-purchase contracts. They charge market rent but offer their tenants a 10 percent down payment rent credit to encourage purchase of the home within the three-year lease period.

The option purchase price is set at the home's market value when the lease is signed and it remains fixed for the entire three-year term. The authors feel it is unfair of some lease-purchase sellers to make the option subject to an appraisal at the time the tenant decides to buy. If home values skyrocket, Frank and Heller explain, the tenant benefits.

Chapter topics include "Making Your First Million Dollars"; "Getting Started"; "Our Story, Goals, and Niche"; "Setting Up Your Real Estate Team"; "Money for Purchasing Your Homes"; "Finding Good Homes"; "Making Offers and Negotiating Purchases"; "The Real Estate Purchase Contract"; "Fixing Up Your Homes"; "Our Lease-Purchase Program"; "Marketing Your Homes"; "Finding the Right Lease-Purchasers"; "The Lease-Purchase Contract"; "Managing Lease-Purchase Relationships"; and "Selling Your Homes."

Throughout the book are copies of the forms and contracts the authors use. Considerable emphasis is placed on financing both the acquisitions and the improvements. They explain why investors should move slowly to minimize their financial risks. On my scale of one to 10, this outstanding book rates a solid 10.

"Buy Low, Rent Smart, Sell High," by Scott Frank and Andy Heller (Dearborn Publishing Co., Chicago), 2003, \$18.95, 179 pages; Available in stock or by special order at local bookstores, public libraries and www.amazon.com.

(For more information on Bob Bruss publications, visit his Real Estate Center).

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