

**Would You Like to Buy Modern Homes
At Up to a 75% Discount?
By John V. Kamin**

Here are your questions answered, how, when, where, why and how much!

Wouldn't it be great if you could buy at 25 cents, 35 cents or 45 cents on the dollar of former values? Wouldn't it be wonderful if you could buy modern homes, some near new and some just built at \$40 to \$50 per square foot? Many of these homes had financing available to help with the purchase! Or renovation loans available if there were repairs needed!

During mid-September, I flew to research an auction in Las Vegas conducted by Real Estate Disposition Corp. (REDC). They had some 200 homes, condos and townhouses to sell in one day.

Most of the homes had starting bids of \$1,000. Some had pre-determined minimum bids that were about one third to one half of the previous evaluation - \$60,000 on a formerly priced \$200,000 home.

Many of these homes were foreclosures, walk-aways or had been purchased within the last several years at much higher prices by the original buyers. Most of them were in good neighborhoods. But there were also homes in questionable neighborhoods including some damaged repossessions. Some of these homes had been trashed by the previous occupants or vandalized. Damage was usually noted by the auctioneer.

Description of Auction

Where: The auction site was the ballroom of the Plaza Hotel in Las Vegas on a Saturday. I estimated there were about 800 people who showed up but it was hard to get an accurate count as people kept coming and going.

How: I saw bidder cards issued with numbers exceeding 700. Many buyers would buy multiple properties, or at least bid on them. I counted at least two dozen employees of the auction firm in addition to the bidders and attendees but there might have been 30 or 40 auction employees.

Multiple bidders got a seat during closing near the front of the room so they could continue bidding on other properties while they made their deposits and filled out the paperwork for the escrow/title company.

How Much: The auction went relatively fast. I timed most openings and bidding at two to four minutes per property. I counted well over 100 bidders, maybe as high as 200, who were interested in cheaper properties as buyers when homes sold for \$40,000 to \$60,000. That was where most of the bidding took place. Some houses went for less, most went for more.

On the high end, I saw one \$675,000 house of over 5,000 sq. ft. in a nice area that sold for \$230,000. Many properties or most of them were valued at \$150,000 to \$220,000 previously and most of those went for \$45,000 to \$65,000 – the nice ones.

Homes of 1,500 to 1,700 sq. ft. usually three or four bedrooms and two baths would usually knock down at \$45,000 to \$65,000 or so. I estimated people were bidding \$40 per sq. ft. of construction up to \$50 or \$55 per sq. foot on those homes.

Many condos and townhouses also were sold. Those often went cheaper and often had back HOA dues that had to be paid.

Early Inspection: The auctioneer put out colored catalogs of the properties for sale, with a small photograph of each and a one paragraph fine print description. This was distributed by mail to registered bidders so they could inspect the properties before bidding, with important details such as features, square footage and address.

Valuable Tip: Buy a (Thomas) Street Guide in the auction city before inspecting so you can find the properties to inspect.

Inspection is a Must

Condition: Some of the homes in both good neighborhoods and poor ones had been trashed. Damages such as water damage were noted, as were missing cabinets and appliances. Those sold cheaper.

Some of the better homes seemed to be in exclusive neighborhoods including some that had been newly or recently built. The ones with the larger square footage (4,000 to 7,000 sq. ft.) were mostly in exclusive neighborhoods on larger lots.

Re-Auctions: When buyers with questionable credit did not qualify, the homes were re-auctioned and sold a second time. I even saw some damaged properties resold a third time. Resales were also done where the original winning bidder could not come up with the money or qualify for a loan possibly due to questionable credit. I was there to research the auction, not the credit histories of the individual bidders.

What You Needed to Get

A Bidding Number

You had to fill out an application early – a three day bidder application in advance. Before you were issued a bidder number, you had to show a cashier's check for \$5,000. The auctioneer makes money by adding on a 5% buyer's fee. For example, if you bought a previously listed \$300,000 home for \$100,000, you would need to give the auctioneer a personal check for \$5,000 "earnest money" for his 5% fee in addition to the \$5,000 deposit cashier's check.

I got a copy of the bidding application which was quite thorough; it asked the percentage of down payment you intended to pay or whether you were buying for all cash – plus other information.

Without the cashier's check plus personal funds available for the auction buyer's fee of 5%, you could not get a bidder number. Some sales were rejected because the winning bidders could not come up with the appropriate funds.

When: The auction started early in the morning and was still finishing at 5:00 p.m. Some sales were subject to property owner's approval, but most were not. My guess is that many of those disposals were properties owned by banks and other lenders – repos. Maybe a seller might take 30%, 40% or 50% on the dollar of previous value, but most sellers would refuse bids of say 20% or less.

The auctioneers ran out of color catalogs early. They also mentioned that they have auctions in other major cities as well. This one happened to be in downtown Las Vegas. They displayed a web site on a big screen – www.usauctionhome.com. Two projection screens were in front of the room with speakers mounted throughout the room. Photos of properties would be displayed on both screens in the front of the room. That way, there would be no question about which properties you were bidding on.

If bidders did not complete the paperwork process satisfactorily, that sale was nullified and the property was re-auctioned. There were many re-auctioned properties, dozens. Some resales brought higher bids; some brought lower bids the second or third time around.

Final Thoughts

REDC Auction Company auctions only homes. Their address is 1 Mauchly, Irvine, CA 92618. You can contact them directly, preferably at their web site if you wish to register as a potential bidder for a future auction in other cities.

Frankly, I have been to hundreds of auctions and this one was professionally handled, well done. Real estate brokers who registered their buyers and pre-qualified bidders were promised a partial commission provided the broker stayed with the buyer throughout the auction, bidding and paperwork process.

Summary

I liked the idea of buying properties at \$40 to \$50 per square foot because I know that many of those homes cannot be built for less than \$150 to \$250 per square foot plus the cost of the land or lot. It's surely cheaper to buy than to build your dream home.

The prices were so cheap in many cases that I was tempted to buy five or six vacant homes. I did not buy any however because I did not physically inspect them. Homes in Las Vegas would have had to be rented out to avoid vandalism and theft on empty houses. No - mortgage interest rates on homes being sold were not spelled out. That step was taken care of after winning bids with the individual bidders depending on their credit history, down payment and available financing.

I saw dozens of bidders buying multiple homes, speculators for resale at a profit. It seems to me a person with resources could buy five or 10 homes and make \$500,000 or \$1,000,000 by remarketing them individually in a better market during the inflationary times ahead.

I did not see any commercial buildings or empty lots offered for sale. The auction was limited to homes only, no commercial, no vacant lots. Some of the condos and town homes appeared to be near new; but I don't recommend those due to the current market glut and often resale difficulties, plus high homeowner association (HOA) dues.

Certainly, if I was in the market to buy a home in that city, I would choose this method of buying an already built vacant home at way below replacement cost.

Buying a \$220,000 previously valued home at \$50,000 to \$60,000 in a developed neighborhood could save you enough money on the small mortgage payments plus low property taxes to pay off the property 100% with just the savings within three years.

And if one was renting now, say at \$1,500 to \$2,000 per month, it would be much cheaper to buy one of these foreclosed homes and then pay it off in two to four years with the money you saved on rent alone! I would prefer this method of purchasing at below wholesale, below market to the normal real estate purchasing methods. There are 10,000s of vacant homes for sale that must be disposed of any given month.

Most of the homes are in major metro areas and are not ratty, condemned junkers or fixers. I didn't see any junkers or teardowns, though there might have been some hidden among the crowd.

Have fun, make money. We'll continue research and reveal lucrative money-making methods in upcoming articles. Disclaimer: This is not a recommendation for the REDC firm. I have not bought or sold anything nor done any business with them.

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