

Three Questions to Spot Good Real Estate Deals

By Robert Shemin, JD, MBA

Analysis Paralysis: one of the biggest blocks of successful investing. That's when you stumble into a good deal, then stop dead in your tracks. You worry about the decision but never do anything.

In my first six months of investing, I looked at hundreds of great deals and froze. How did I know it was a good deal? How did I know I could make money? If I made an offer, I was scared I might have gotten the deal...and then what?

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To overcome analysis paralysis, (1) get lots of information and (2) make sure you have a really good deal (because even if it's not as good as you think, you still have a margin of error to work with). If I told you the exact cards that will come out on the blackjack table, without a doubt, you would play them because you have information about what will happen. When you gather lots of meaningful information, this also can be true in real estate investing.

Information Gathering

Ask the following questions first. They will help you decide if you should make an offer:

1. What is the property worth today?
2. What repairs are needed and how much will they cost?
3. What can you get it for?

1. What is the property worth today? To develop a successful real estate investing career, your job is to find deals and put them together. Your job is not to become an appraiser or a closing attorney or a management expert or a repairperson. Use professionals! How do realtors, appraisers, and banks determine what a property is worth? They look at comparable sales, usually three to five sales of similar property close by. Realize that the properties have to be similar for a true comparison.

Next, get a list of comparable sales and see the sales price of every property bought or sold (and when it sold) for the street you want information about. Also ask active professionals what the market is like. Whenever possible, get information in writing via fax, email, or letter. Put comparable sales lists and information in a folder for future reference.

2. What repairs does the property need? You can find the cost of the repairs from two different sources: from the owner or the seller (most are truthful; a few are not) and from a good contractor who is licensed, bonded, and referred to you. Make sure that person is "referred" and that you get bids from more than one contractor, all recommended by respected realtors or other investors.

3. What can you get it for? When sellers are motivated to move a property worth \$100,000 and it does not need any repairs, they may say, "We'll let you have it for \$70,000." (This is about 30 percent below market value. Ruse of thumb: A good deal should be at least 20 percent below market.) Would that be a good deal? Yes. Now you can negotiate an even better deal and get a signed contract. That's where you make money in real estate. By not negotiating, you may have potentially left a lot of money on the table.

Every property's value is the eyes of its beholder. If you own a lot of real estate and you are being sued, you might make a case that your property is not worth much and needs repairs. On the other hand, if you go to the bank to borrow money against the property, you'll want it appraised as high as possible using the highest comparable sales. And when the tax assessor calls to figure out your new taxes for next year, you'll say the rents are low, the buildings need work, and so on. Since property has different value depending on who is looking at it, make sure you talk to professionals active in the market who tell you honestly what people are paying for

properties today. You can also determine market value by attracting an offer through a newspaper ad that includes details of the property. If the phone rings, people want what you offer. Likewise, if you want to see how much rent should be, run a For Rent ad and see if anybody calls. If no one calls, you don't have much of a market.

Now Do Your Analysis

You have negotiated a good price and put it under contract with a contingency clause. Now do your analysis. (Beginners tend to analyze for six weeks but by the time they find out the age of the water heater, the condition of the roof shingles, and the opinions of neighbors, their opportunity may have disappeared.) Instead, do a quick survey to see if it is a good deal, document everything, put your offer in with a contingency, then do your complete analysis.

If you experience analysis paralysis, you'll lose a lot of deals. That's why it's important to gather your information well and act boldly.

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