

### Two Sides to Foreclosure: Keeping the Market in Perspective

*The ballooning inventory of available foreclosure properties should be an area of concern among lending institutions. This situation is good news, however, for those who track and invest in the foreclosure market. **Brad Geisen***

It's old news that foreclosures are rising at an alarming rate, due in large part to the recent collapse in the housing market. According to some reports, in fact, foreclosures have more than doubled over last year. If you're a mortgage lender, that number should make you nervous. If you're a smart real estate investor, though, rising foreclosures can mean big money!

Before you run out and buy six houses, though, you may want to slow down a bit. No, I'm not going sour on real estate investing. It's still the best way to make money no matter what the market is doing.

However, this is an unsettled market, and it's not just families that are winding up in foreclosure these days. If you haven't educated yourself in the different areas of investing, you could end up in hot water, too. If you've maxed yourself out on loans to buy those houses, and they don't sell, you could end up on the receiving end of one of those foreclosure notices.

How do we, as investors, avoid becoming a statistic? Here are few tips:

- **Get yourself educated.** There are numerous investment strategies and many ways to buy houses. Whether you want to become an expert in short sales, subject-to, private money, mobile homes, or multi-unit properties – do it! Become an expert! Get an education, whether through your local REIA, a coach or a set of CDs. It's imperative. It will save you time, money and headaches.
- **Do your homework before you buy.** If you don't pay too much for the house or for its repairs, you won't have to overprice it when you go to sell. It's easy to get caught up in the desire to purchase, or be blinded by the idea of terrazzo floors, or ignore that nagging feeling that tunnels along the floor boards mean something. But investment is a business. It's essential that you base your decisions on solid information. By doing your homework, you'll know the true market value of the house. You'll also know how much repairs will cost. You won't overpay and you won't over-fix. If you price it just a little under market you can sell it fast!
- **Use private lenders.** Did you know you don't have to borrow from a bank? In fact, if you can avoid it, by all means do! Banks are so rigid in their loan requirements that borrowing from them is expensive, slow, ponderous, and just plain painful. You may pay thousands in points and fees. Getting in or out of a deal can take weeks. With a private lender, you can move fast – and you can negotiate terms that, later on, could keep you from going under.

- **Don't get greedy.** You've got a house that's worth \$200,000. You paid \$125,000 plus \$25,000 in renovations. You're sitting pretty with potential profits of \$50,000, and you want every cent of it! So you're going to ask \$207,000 (so you can bargain down) and you're not going to use an agent, or even a flat-rate service. Well, let's hope you can afford to sit on that property. But if you're like most real estate investors, you can't afford to have your money tied up unproductively – and you sure can't afford a house that sits on the market month after month.
- **Go with the flow.** To weather financial storms, your investment strategy should change with the market. Until recently, we've been in a seller's market. With so many subprime lenders, it was a great time to sell homes. Now, "flipping" may get a little more difficult, so you should rethink your strategies. Maybe rentals are a better bet now. If you become wed to particular investment strategies even when they don't fit the current market, you run a real chance that your properties will sit empty, while you scramble to get the next mortgage payment together. And that's a dandy recipe for foreclosure.
- **Don't be "penny wise and pound foolish."** One of the attractions of real estate is the feeling of accomplishment we get when we take a wreck of a property and turn it into a nice place to live. But repairs take money, time, and know-how. If you're just getting started, you probably don't have a lot of money for repairs. But before you decide to do it yourself, remember this old adage: "A job can be done fast, well, or cheap. Choose any two." Don't risk increasing your holding costs by taking on a job you don't have the time or skills to manage well.

The recent increase in foreclosures brings with it the opportunity to make lots of money. But foreclosure is no laughing matter. No matter how lucrative the market seems, educate yourself and make smart decisions. Otherwise, your next call may be to one of us!

*Don DeRosa was recognized as one of the nation's top 21 real estate investors in the New York Times bestseller The Millionaire Real Estate Investor. Don, who is a full-time investor, trainer, and mentor, offers a complete system to build and run a thriving real estate business. For more information on Building Wealth with Real Estate, visit [www.donderosa.com](http://www.donderosa.com).*

**Synopsis:** Current market conditions mean foreclosures are on the rise, and that spells big opportunity for real estate investors. If we're not careful, though, we may find we're the ones getting foreclosure notices. By investing smart, you can avoid foreclosure. How? Get educated, do your homework, use private lenders, set reasonable prices, understand what market you're in, and don't take on do-it-yourself projects unless you can perform the work quickly and professionally.