

## Case Study

### “Flips, Frauds and Foreclosures”

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**First**, analyze the information you have. Start by sorting the properties into a manageable grid, going from earliest listed to most currently listed. Understand while you are doing this, that when the properties were listed, the agent had (or possibly did not have) an understanding of market conditions *at that time*.

<u>Time</u>	<u>Address</u>	<u>OLP</u>	<u>CP</u>	<u>Incentives?</u>
180	621 Oak	\$202,500	\$195,900	none offered
160	860 Elm	\$194,900	\$185,000	Relo Agent incentives
150	456 Pine	\$199,000	\$191,900	Bonus comm..
60	748 Maple	\$192,900	\$192,900	None
45	414 Willow Lane	\$149,900	\$144,900	REO Poor condition Bring offers
30	923 Ash St	\$189,900	\$189,900	None
30	303 Dogwood	\$170,000	\$170,000	Rough
7	622 Elm St.	\$210,000	\$210,000	Won't last (??!)
7	729 Locust St	\$165,000	\$165,000	“as is”
?	350 Beech St	unknown		Sheriff sale Posted
?	742 Maple St.	unknown		Auctioneer's Sign

Now that you have these listings in order, you can begin to make sense of this market. In this case study, the homes are all fairly homogeneous (very similar to each other) so the *market* data is more important overall than individual property data.

First of all there, are at least 11 available listings in this neighborhood for sale now. There are seven sales from the entire year last year, so you have in excess of a one and one half year's supply. Seven divided by 12 = .5833 houses per month (just over a half). 11 divided by .5833 = 18.858 months supply. **This fact alone is more important than how the house looks inside!**

Now, review the listings. We don't know the 'asking price' of the sheriff sale or the house to be auctioned; we will assume that our investors in this market will check them both off. Putting the listings in order by price you have:

<u>Address</u>	<u>Current price</u>	<u>Comments/notes</u>
622 Elm	\$210,000	New listing, what was The agent thinking?
621 Oak	\$195,900	On market 180 days; No incentives
748 Maple	\$192,900	60 days, no concessions Offered
456 Pine	\$191,900	150 days on market Bonus commission offered
923 Ash	\$189,900	None 30 days on market
860 Elm	\$185,000	Relo company Agent Incentives 160 days
303 Dogwood	\$170,000	"Rough"
729 Locust	\$165,000	"As is"
414 Willow	\$144,900	Poor, REO bring offers

Our subject is going into foreclosure. We'll assume the lender will be motivated, which puts him in with the bottom four comps. We also assume that the lender wants to sell it 'as is'. The highest price listing was taken by an agent who appears to have not read the market. It looks like the next four listings after that one (621 Oak, 748 Maple, 456 Pine and 923 Ash) are still hoping that the market will return to what it used to be. In terms of reliable data, the bottom four listings are the most competitive; the sheriff sale and auction property are 'wild cards'—they will probably affect the market. 622 Elm is so

overpriced it doesn't even matter, and is not truly a competing listing. The **range for listing is \$144,900 to \$185,000.**

Now, let's look at the solds. Again, put them in order by date, starting from furthest back to current.

<u>Time</u>	<u>Address</u>	<u>FLP</u>	<u>FSP</u>	<u>Comments</u>
8 mths	632 Pine St	\$195,000 98% LP/SP	\$192,500	Conv. No assist
7	807 Ash	\$164,900 100% LP/ SP	\$164,900	Cash "as is"
6	687 Willow	\$192,500 100% LP/SP	\$192,500	Conv no assist
3	668 Elm	\$190,000 97% LP/SP ratio	\$187,500 Effective: \$185,000	\$2500 cl costs
3	614 Spruce	unknown	\$199,900	non-brokered Out of town buyer
2	530 Locust St	\$162,500 95% LP/SP ratio	\$154,900	Cash "as is" Resale of foreclosure
2	442 Pine St	unknown	\$159,900	Estate sale Investor buyer

What do you have here? Well, first of all, we can't develop a LP/SP ratio for the last two comps, because we don't know their offering prices. We will assume the sale on 614 Spruce St did not involve an educated buyer; he was from out of town; it was non-brokered; and this buyer paid more than anyone else did in the neighborhood—and only got a two bedroom house. The LP/SP ratio is lengthening. The most recent sales are usually the most reliable. We have thrown out 614 Spruce St., because we think the buyer didn't know what he was doing. That leaves the bottom two as definite comps; most appraisers would also pick 668 Elm, because it is only 3 months old and it is next door. Therefore, our range of value for the sales price is \$154,900 to \$185,000. Look at the sale at 807 Ash, which occurred 7 months ago and then look at the sale at 530 Locust St which is 2 months old. Both were sold 'as is'—and there was a \$10,000 difference in value. This strongly suggests a sales price at the lower end of the range.

Market trends: Market is going downward. There is an oversupply, more concessions are seen, and LP/SP ratio is changing.