

CHAPTER 1

What Is Abandoned Property?

Have you ever been driving through your neighborhood and noticed a property that looked like it needed some work? Perhaps the fence had some pickets missing. The garage door could use a new coat of paint. Maybe the grass was three weeks past being mowed. Newspapers were accumulating in the driveway. Multiple pizza flyers were rubber-banded to the handle of the front door.

Is this a property wherein the owners have no pride of ownership? Is the property owner's lawn mower in the repair shop? Is this a property of owners who went on a vacation and forgot to stop the newspaper? Do these property owners never go in and out the front door? Or is this a property that has been abandoned by the owners?

Your curiosity gets the better of you. You decide to watch the property to see if anyone is coming or going. You see no signs of human activity. You drive by at night to see if there are any lights on. The property is always dark.

One day you decide to stop and ring the doorbell. No one answers. You notice the bird droppings on the front stoop from the nest in the entry eaves. Talk about disgusting. Why don't the property owners clean up this mess? They are not around to notice. The property owners have walked away from their property.

Abandoned Property

Every neighborhood in every city or town has abandoned property. These properties can be single-family residential, condominiums, duplexes, triplexes, fourplexes, apartments, commercial, industrial, business, hotels, resorts, farms, ranches, or vacant land. Any category of real estate you can think of contains abandoned property.

Abandoned property can be found in big cities. Abandoned property can be found in rural areas. Abandoned property can be found in small towns. Abandoned property can be found along the coast. Abandoned property can be found in the mountains. You can find abandoned property anywhere.

Physical Condition

An abandoned property can be in distressed condition. Abandoned property can fit into a stereotype of a property that looks blighted or run-down. An abandoned property can be in a bad neighborhood. Abandoned property can be on the wrong side of the tracks.

An abandoned property can be in good condition. Abandoned property can be outside the stereotype and be in immaculate condition. An abandoned property can be in a good neighborhood. Abandoned property can be on the right side of the tracks.

Title Condition

An abandoned property can be about to go into foreclosure. Abandoned property can be in foreclosure. An abandoned property can have unpaid property taxes. Abandoned property can have federal tax liens, state tax liens, and judgment liens against the title.

An abandoned property can have loans that are in good standing. Abandoned property can have property taxes that are paid current. An abandoned property can have no tax liens or judgment liens against the title. In fact, abandoned property can have completely clear title.

Ownership

The property owners of abandoned property are individuals, families, general partnerships, limited partnerships, family partnerships, corporations, trusts, small businesses, big businesses, local, state, and national governments. The abandoned-property owners can be local to the community, live in the next town, live out of state or out of the country.

Abandoned-property owners can be banks, mutual funds, stock cooperatives, local property-taxing authorities, foreign investors, the Internal Revenue Service, nonprofit organizations, churches, synagogues, mosques.

Any entity you can think of can be an abandoned-property owner. An abandoned-property owner can be a celebrity or a nobody. An abandoned-property owner can be a royal or a commoner. An abandoned-property owner can be a legal business entity or an illegal business entity.

Financial

Abandoned-property owners are poor. Abandoned-property owners are rich. Abandoned-property owners are everything in between rich and poor. The owners of abandoned property can fit into a stereotype of being financially strapped or even destitute.

The abandoned-property owner can be in bankruptcy or about to be in bankruptcy. An abandoned-property owner can also be completely outside the stereotype and be quite well off financially.

Beyond the Stereotype

Our point is that we want you to expand beyond your stereotypical sensibilities when it comes to finding and buying abandoned property. Yes, we agree that your initial notion of what an abandoned property would look like and who an abandoned-property owner would be is a good starting point for your investing in abandoned property.

That is why we started this chapter out the way we did. However, an abandoned property can feel and seem like a normal property and look like other normal properties in the area. An abandoned property can even have someone living in it! How does that expand you beyond your stereotypical sensibilities?

Sixth Sense

We also want you to develop an abandoned-property sixth sense. This will allow you to find and buy abandoned property that other real estate investors never identified as abandoned property. Because the abandoned property was outside of their stereotypical sensibilities, your potential competition becomes no competition for you!

This sixth sense is like the sixth sense we want you to develop in our book *Make Money in Short-Sale Foreclosures* (John Wiley & Sons, 2006). In that book, we show you how to identify short-sale foreclosure opportunities with property that does not fit the stereotypical real estate foreclosure investor's sensibilities. You will develop this sixth sense in the abandoned-property arena by reading this book.

Undiscovered Gold Mine

The first prospectors in California in the 1840s were ahead of their time. Very few people had the dream or the vision to pan for gold in the streams and creeks of the foothills of

the Sierra Nevadas on the east side of San Francisco Bay. The work could be lonely, difficult, and the object of ridicule by people in the know who knew that the prospectors were wasting their time.

In 1849, gold was discovered at Sutter's Mill. This was the beginning of the California gold rush. It turned out that there was gold in them thar' hills! Today, the professional football team in San Francisco is called the San Francisco 49ers in recognition of those prospectors, known as forty-niners, who put San Francisco on the map. Needless to say, the prospectors who staked out their claims early were the ones who were more likely to strike it rich.

Abandoned property is the undiscovered real estate investment gold mine of the next three to five years. Just as the gold in California was already there waiting to be discovered, abandoned property is already there in your area waiting to be discovered. And who better to discover it than you?

Real Estate People in the Know

Real estate people in the know have yet to put their seal of approval on abandoned property as a legitimate real estate investment opportunity. They are waiting for the news media to announce there is an abandoned-property market. That is the good news for you and us. For those of us who can see the abandoned-property opportunity, we will be able to stake our claim now.

We will be more likely to strike it rich than those who jump on the abandoned-property bandwagon in the years to come. This will be long after we have discovered gold in them thar' abandoned-property hills.

Amount of Abandoned Property

To quantify the amount of abandoned property is a difficult task. As is usually the case, statistics are created after a real-

ity has already occurred. Abandoned-property statistics are no different. As we were researching this book, we found we were finding abandoned property that was abandoned in the real world but had not yet been counted as abandoned property in the world of statistics. For those of you who want numbers, we estimate that somewhere between 1 percent and 2 percent of property is or will become abandoned over the next three years. As you know, all real estate markets are ultimately local in nature. The abandoned property in your real estate market will be local to that market. The statistics could be higher. To give you access to the amount of abandoned property in your area, we are going to tell you a story that we think all of you can relate to.

New Car Experience

How many of you have had the following experience? You decide it is time to buy a new car. You go to the dealer showroom and find just the car for you. It is the perfect color, has all the features you want, the dealer offers you what you need for your trade-in, and you get the price and financing terms to fit your budget.

You make the deal and drive off the lot in your new car. You are feeling excited, breathing in that new-car smell, and can't wait to show off your new baby to your family and friends. Not to mention the drool factor from other drivers in the lane beside you at the stoplights.

Driving home, you see your model car within a mile or two of the dealership. Before you get home, you may see one or two other cars that are your model car, even one that is the exact same color! What is odd is that before you bought your new car you had never seen any other models like it.

Abandoned-property investing is similar to the new-car experience that we have just described. Before you decide to investigate investing in the abandoned-property arena, you may have driven by at least three or four abandoned properties and not even seen them. You had no idea that these properties were abandoned.

Once you decide to make your first abandoned-property investment, you start seeing abandoned properties everywhere you go. Your abandoned-property sixth sense kicks in. We can be driving through a neighborhood or area and know within 30 seconds if a property is abandoned. With practice, in a very short period of time you will be able to do the same.

Prediction

We predict that the abandoned-property market is going to explode. Every market is predicated on supply and demand. The abandoned-property market is no different. On the supply side, both from a reality standpoint and a statistical standpoint, the supply of abandoned property is going to increase. We will address where this increase will come from in Chapter 2, “Why Do Property Owners Walk Away?”

For our discussion purposes here, what we want you to get is that when the supply of abandoned property increases, the price or cost of the abandoned property will decrease. This is good news for us as abandoned-property investors. As abandoned-property investors, we want to buy as low as we can and sell as high as we can.

Amount of Money You Can Make in Abandoned Property

The amount of money you can make investing in abandoned property is unlimited. We are going to give you three examples from abandoned-property deals we have been involved with. This will give you a sense of the range of the amount of money you can make investing in abandoned property.

We have made as little as \$5,000 investing in abandoned property. We have made as much as \$100,000 investing in abandoned property. One of the best deals we made in abandoned property was a deal we didn’t make. That deal would have cost us \$1 million.

\$5,000 Abandoned-Property Deal

We made \$5,000 on an abandoned one-bedroom condo in Del Mar, California. The property owner was a real estate investor who lived in Arizona. The investor had bought the condo two years before and had it rented on a lease option. After 18 months, the tenant was transferred out of town and did not exercise their option to purchase.

We came on the scene after the condo had been vacant for six months. We contacted the owner in Arizona. The owner had pretty much forgotten about this condo. His real estate investing had shifted into bigger commercial projects.

About the only connection he had with the condo was writing the yearly check for the homeowner's association dues and paying the property taxes twice a year. The investor owned the condo free and clear. There were no monthly mortgage payments. This condo was an abandoned property.

We valued the condo at \$95,000. We wrote an all-cash offer for \$80,000. We write all our real estate contracts with an assignment clause. (We will go over this in detail for you in Chapter 14, "Assigning Your Abandoned-Property Deals.")

This would give us the ability to assign our interest in the contract to a third party for an assignment fee if the property owner accepted our offer. When the abandoned-property owner accepted our offer, we had an instant \$15,000 equity position in the property.

Instant Equity Position

Condo Value	\$95,000
Our Offer	<u>− \$80,000</u>
Instant Equity Position	\$15,000

Did we want to pay \$80,000 cash for this condo? No, we did not. We found another investor to whom we assigned our interest in the accepted contract for a \$5,000 assignment fee.

Assignment of Accepted Contract

Our Assignment Fee	\$5,000
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The investor to whom we assigned our contract proceeded to close the transaction with the abandoned-property owner for \$80,000. Their total investment in the property was now \$85,000.

Investor Total Investment

Our Assignment Fee	\$5,000
Contract Price	<u>+ \$80,000</u>
Investor Total Investment	\$85,000

This was a win/win/win deal. The abandoned-property owner disposed of his abandoned property. We made \$5,000 for finding and buying (assigning our contract) an abandoned property. The investor to whom we assigned our abandoned property contract had a \$10,000 equity position.

Investor Equity Position

Condo Value	\$95,000
Investor Total Investment	<u>− \$85,000</u>
Investor Equity Position	\$10,000

\$100,000 Abandoned-Property Deal

We made \$100,000 on abandoned vacant land in the great state of Texas. We say the *great state of Texas* for two reasons. The first reason is that outside of Alaska, Texas is the definition of great, as in vast. There is lots of vacant land in Texas.

The second reason we say the *great state of Texas* is because we live in Texas and like doing abandoned-property deals here. As in *great* abandoned-property deals.

One day when we were driving, we found a for-sale-by-owner sign that looked a little the worse for wear. The sign was on what appeared to be vacant land. We could barely make out the phone number on the sign. When we called the number, it had been disconnected.

We checked the property-tax records and got a name and an address for the property owner. We tried getting a phone number, but again no luck. So we wrote a letter to the property owner saying we were interested in buying their property.

Three months went by, and frankly we had forgotten about the sign, the property, and our letter. We then received a letter from the property owner. They were interested in selling us the property. It was a 100-acre parcel. The price they wanted was \$4,500 per acre. This would be a total of \$450,000.

Vacant Land Deal

Price per Acre	\$4,500
Number of Acres	$\times 100$
Total Price	<u>\$450,000</u>

The reason it had taken so long for the property owner to get back to us was they were the out-of-state relatives of the Texas owner. The Texas owner had passed away, and the out-of-state relatives had inherited the property. None of them was interested in coming to Texas to take over the property. Essentially, they wanted the cash out of the property to split between six heirs.

The original sign we saw on the property had the phone number of the Texas owner who had passed away. He had been trying to sell the property to pay for medical expenses. This was a sad story but real life in the abandoned-property investing arena.

We did a market analysis of the acreage and determined it was worth \$5,500 an acre. We wrote an option contract on the property with a six-month option period that would pay \$450,000 in cash to the out-of-state heirs if we exercised our option. (We will get into options in Chapter 16.)

We found a buyer in four months who agreed to purchase the property from us for \$550,000. We exercised our option with the heirs for \$450,000 and made \$100,000 on the deal.

Sold Property For	\$550,000
Bought Property For	<u>− \$450,000</u>
Our Profit	\$100,000

The \$1 Million Abandoned-Property Deal

Sometimes the best abandoned-property deal you make is the abandoned-property deal you don't make. We saved \$1 million by not buying an abandoned hotel in Biloxi, Mississippi.

In 2003, while traveling through the Mississippi Gulf Coast, we found an abandoned hotel in Biloxi, Mississippi. It was on the Gulf of Mexico across the street from the water. Casinos were located within a stone's throw of the hotel's entrance.

We were staying in a small hotel that was adjacent to the abandoned hotel. We noticed a for sale sign on what looked like a vacant lot on the other side of the hotel where we were staying. We asked the hotel manager if he knew anything about the property for sale. We discovered that what was for sale was the vacant lot, the small hotel, and what turned out to be a six-story abandoned hotel next door.

The hotel manager had the keys and offered to show us the big hotel. We were immediately enamored with this 1920s diamond in the rough. We found out the owner lived 100 miles away. We made contact and set up an appointment to meet. The abandoned-property owner owned the property free and clear. He had owned the hotel for nine years. Unfortunately, he had suffered a heart attack in 2002.

The plans this property owner had to restore the hotel had been abandoned after he suffered his heart attack. As is, the hotel and the land were worth \$4.75 million. We could buy the property for \$3.5 million. If we would make a \$1 million cash down payment, the owner would seller-finance a carry-back first mortgage for \$2.5 million.

Hotel Deal

Purchase Price	\$3,500,000
Down Payment	<u>− \$1,000,000</u>
Seller First Mortgage	\$2,500,000

We would have a \$1.25 million equity position going into the deal.

Our Equity Position

Hotel Value	\$4,750,000
Purchase Price	<u>-\$3,500,000</u>
Our Equity Position	\$1,250,000

We were actually getting very excited about doing this deal. We wanted to take on the project of restoring the hotel. The owner was excited because he could see that by selling us the hotel we could help him regain his abandoned dream of restoring the hotel to its former elegance.

We wound up not doing this deal. There was no good real estate reason not to do this deal. Even if we decided not to go through with the restoration, we still would have been able to make money just flipping or holding onto the property.

Our sixth sense kicked in, and we just had a gut feeling not to proceed. The owner was disappointed. He actually became angry with us when we could not articulate any reasonable explanation for not going through with the deal.

The down payment was doable. The seller financing was fantastic. We would have an instant equity position. There was everything to like from an abandoned-property real estate investment perspective.

Two and a half years later, we found out why we couldn't do the hotel deal in Biloxi, Mississippi. Hurricane Katrina roared through and destroyed the hotel. All the work of restoration would have been ruined. We could have lost many millions of dollars.

Even with insurance, because of the deductible we would have been out at least \$1 million. We had saved ourselves two-and-a-half years, heartache, and financial discomfort. This has been our best abandoned-property deal so far. Thank you, sixth sense!

In the next chapter, we will talk about why property owners walk away from or abandon their property. We have found that property owners walk away from their property for three main reasons. These three reasons include financial reasons, death or divorce, and an uninhabitable property.