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Foreclosure Buyers Must Be Prepared to Do Heavy Fix-Up Work

By Josh Brodesky, The Arizona Daily Star, Tucson

Apr. 19--At the housing market's peak in 2006, a property in Picture Rocks sold for \$160,000.

Last month, Thomas Strayer plucked the foreclosed property off the discount rack, paying \$75,000 for the home, which sits on a 1.25-acre lot and comes with a guesthouse.

"I had been looking for places here, and in the San Diego area," said Strayer, a semi-retired painter, who plans to use the property as a rental. "I live in the Picture Rocks area. It was close to me, and the price was right."

For prospective buyers searching the foreclosure listings -- often called "vultures" in the real estate world -- bargains can be had. But finding rock-bottom prices, even in this depressed market, isn't as easy as you might think.

Bargain hunters searching for deals of \$100,000 or less should focus on homes that have been on the market for months, and they should be ready to put in some serious repair work when their offer is accepted. Potential buyers should research recent listing prices and not be dazzled by massive discounts off inflated prices from the bubble years. And it would be smart to check out home auctions, which are the most likely places to find fire-sale prices.

But keep in mind that when foreclosed homes come particularly cheap, they have almost certainly been trashed and require heavy fix-up.

And be aware that while Tucson has seen a sharp increase in foreclosed homes on the market, it still doesn't have the glut found in larger cities such as Phoenix and San Diego. That means less pressure on banks to waver much on a list price. (See the chart accompanying this news article.)

Bob Zachmeier, owner of Win3 Realty, which has become the dominant real estate agency in Tucson for the foreclosure market, said he prices new foreclosure listings at 10 percent to 15 percent below market value in the hope of making a quick sale -- or even starting a bidding war.

It's a good way to get foreclosures off banks' books, which means he rarely sees banks accept extremely low

offers on properties.

"It's not like that at all," he said. "Most of them tell us, 'We want an offer in 30 to 60 days, and we want a closing by 90 days.' ... We've had some extreme cases where houses are sold for \$50,000 more than what they are priced at" because of bidding wars. Emerging foreclosure market While not hit nearly as hard as other cities, Tucson's housing market is still driven by foreclosures.

Foreclosures accounted for roughly 35 percent of all resale closings in January and February, according to the housing report for February from John L. Strobeck, owner of Bright Future Business Consultants, who researches and analyzes real estate data for Southern Arizona.

It's easy to see why foreclosures are taking up such a large portion of sales: They go for considerably less than new homes and traditional resales.

While the median price -- the middle point in price -- for foreclosures in February was \$139,950, the median prices for traditional resales and new homes in February were \$187,000 and \$214,364, respectively, Strobeck reported.

But lenders may be reluctant to go much lower than the current price point because inventory in Tucson continues to decline. That's the old law of supply and demand: Supply down, price up.

There were 7,415 active listings in March in the Tucson metro area, considerably down from the 9,022 listings a year ago, according to the Tucson Association of Realtors' Multiple Listing Service.

"The difference in prices that the lenders take for foreclosed properties has to do with the market," said Fred Dawson Jr., executive vice president with Commerce Bank of Arizona. "The Tucson market is in better condition than the Phoenix market." Deals can be found Depending on the market or the condition of the home, lenders might be more amenable to cash-only offers or steep discounts from list prices, Dawson said. But in general, Tucson's market hasn't reached that point.

If a property has been on the market for months, banks may accept rock-bottom offers just to clear their books.

However, "if it has been sitting on the market for 90 days, chances are it wasn't properly valued to begin with," said Dustin York, an agent with Keller Williams Realty who handles a number of foreclosures.

York said a common misperception among bargain hunters is the thinking that cash offers will spur a deal.

He said he's had numerous prospective buyers make cash offers at 50 percent of a home's list price.

Those offers are "always shot down," he said.

In Strayer's case, his property in Picture Rocks had been on the market for seven or eight months as the bank slowly dropped its list price.

Other potential buyers had made offers -- in the range of \$50,000, Strayer said -- but he offered a price much closer to the listing at the time.

"The last time it sold (in 2006) for \$160,000, so I thought \$75,000 seemed perfectly reasonable," he said.

Strayer is handy, so he can do much of the fix-up work on the two homes himself. But still, he's pumped about \$10,000 into the two to make them livable, putting in new heating and air conditioning, appliances and paint.

"They were in what I would call 80-percent-good condition," he said. "I'm making them someplace I would live

in. They are not slumlord stuff."

Strayer has also been considering foreclosed properties in the Phoenix area.

He recently looked at a home in Queen Creek that once sold for \$300,000, but was listed for \$40,000.

"But it would have taken \$150,000 (in repairs) to bring it back," he said. Bank auctions sometimes yield hyper-low prices on foreclosed homes. But even then, the deals rarely are as good as they sound.

Consider some of the Tucson homes sold in a recent auction by California-based REDC, which compared the sale prices at the auction with prices from the housing boom rather than the much lower list prices for today's market.

For example, a house at 6000 N. Via Tres Patos, near Sabino Canyon, went for \$451,500 at the auction, considerably less than its \$850,000 sales price in 2007.

But the home was listed at \$509,500 on the Tucson Association of Realtors Multiple Listing Service Web site, so the deal wasn't as good as the auction company made it sound.

The measure of a good deal for many people, said Commerce Bank's Dawson, is "looking for bargains, not in relation to what prices were, but in relation to where things are now."

Ronald Voigt, who specializes in investment properties, recently bought two properties through an auction. While he said the auctions can lead to good deals, most properties will need a fair amount of work to restore.

"You have to do a lot of due diligence," he said.

Voigt bought one home on the Southwest Side that was a "minimal fix-up," he said.

Although it sold in 2006 for \$179,900, Voigt bought it for \$78,700 at the auction.

He cleaned it, gave it some new paint and sold it to someone else as a carryback loan for \$105,000.

"The buyer wants to do all his work," Voigt said. "So, he can actually make some more money if he wants to fix it up."

But usually, auction properties don't come so clean.

Consider the other Southwest Side property Voigt bought for \$63,000 at auction.

That's far below the assessed value, except it doesn't have a kitchen or heating or cooling.

He has set up a rent-to-own deal with someone who works in construction who is interested in restoring the property.

"Usually, they are beat up," Voigt said. "When people realize they are going to lose their homes, they are going to start beating them up."

Not much bargaining room

Through 2008, foreclosed homes in Tucson sold fairly close to their list prices. In many months, they sold closer to their list prices than homes sold under traditional circumstances (although traditional homes sold for much higher prices).

Here's a breakdown of sales prices for foreclosures and traditional sales as percentages of the list prices. So, for example, in January of 2008 foreclosures on average sold for 88 percent of the list price.

Month (2008) Foreclosure sales Traditional sales

January 88 90.5

February 90 90.5

March 92 91.5

April 92 92

May 90.5 92

June 92.5 91

July 93 92

August 94 92

September 93 91.5

October 94 90

November 93 89.5

December 92 89.5

SOURCE: Win3 Realty. Based on Tucson Association of Realtors' Multiple Listing Services data.

Contact reporter Josh Brodesky at 573-4178 or jbrodesky@azstarnet.com.

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