



*Opportunity Knocks:
Understanding Distressed
Real Estate*



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welcome

What Happened?

BOOM
then
BUST

Loss of Accountability

*Mortgage Companies Bundled Loans
Together, buoyed by the high-risk, high-reward
subprime loan*

- Sold loan packages to Wall Street Investors and Hedge Funds
- Fueled desire for more mortgage backed securities
- Suddenly, ABC Mortgage Companies no longer holding notes
- Created disconnect between borrower, lender and mortgage investor



BOOM
then
BUST



Making Sense of it all

August, 2007 – CRASH!

- Anticipated crash in February, 2007
 - Astronomical number of Notice of Trustee Sales (subprime loans going into default)
- Interest rates climbed on subprime loans (ARMS came due)
- Borrowers could not make their payments
- Supply increased, demand decreased
- Price & Value Fell
- Credit Tightened

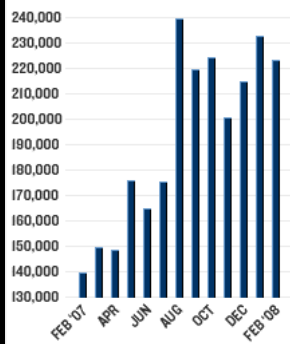


FORECLOSURES
SKYROCKET!



U.S. FORECLOSURE FILINGS

February filings jump almost 60% from a year ago



SOURCE: REALTYTRAC

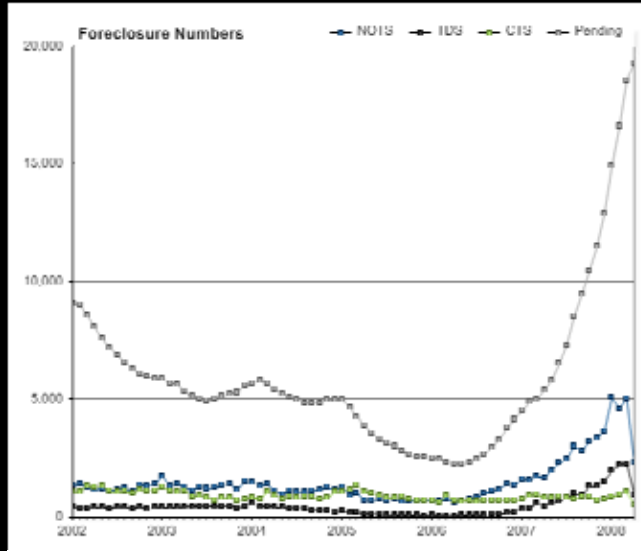
Record high of foreclosure filings in August, 2007 with 240,000.

▪ 223,651 homes got hit with foreclosure filings in February '08 (including default notices, auction sale notices and bank repossessions.)

▪ 46,508 of those were lost to bank repossessions.

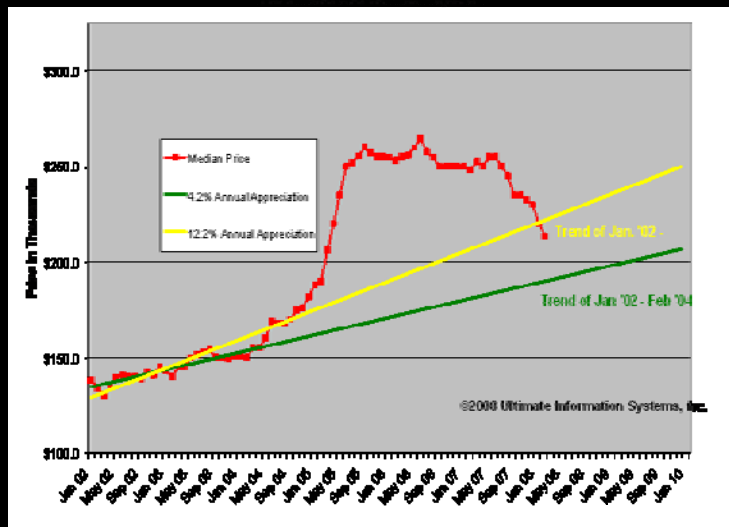
▪ That is more than double the amount from February '07.

Metro Phoenix Foreclosures



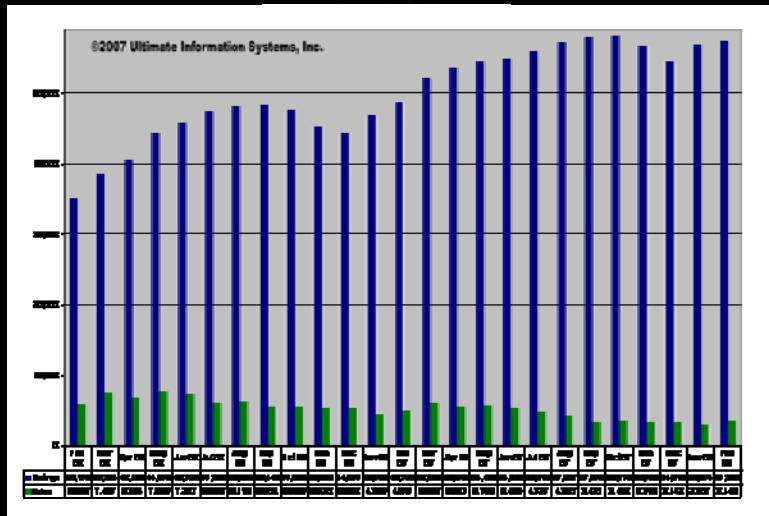
(NOTS) Notice of Trustee Sale, (TDS) Trust Deed Sales, (CTS) Cancellation of Trust Deeds and All Pending Pre-Foreclosures

Median Resale Sales Price Projection



Median Price is Heading Toward Normal Appreciation Levels

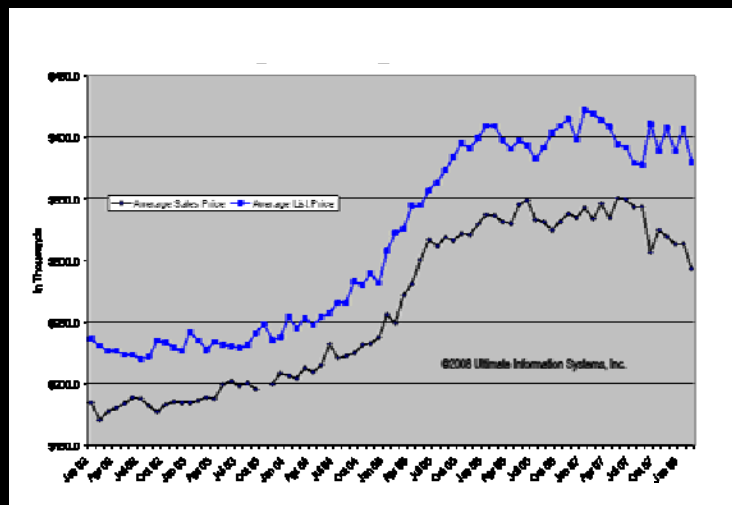
MLS Listings & Sales Feb '06 – Feb '08



February 2006: 35,100 Listings & 5,850 Sales or 17% of Inventory Sold

February 2008: 57,300 Listings & 3,450 Sales or 6% of Inventory Sold

Average Resale Listing and Sales Price



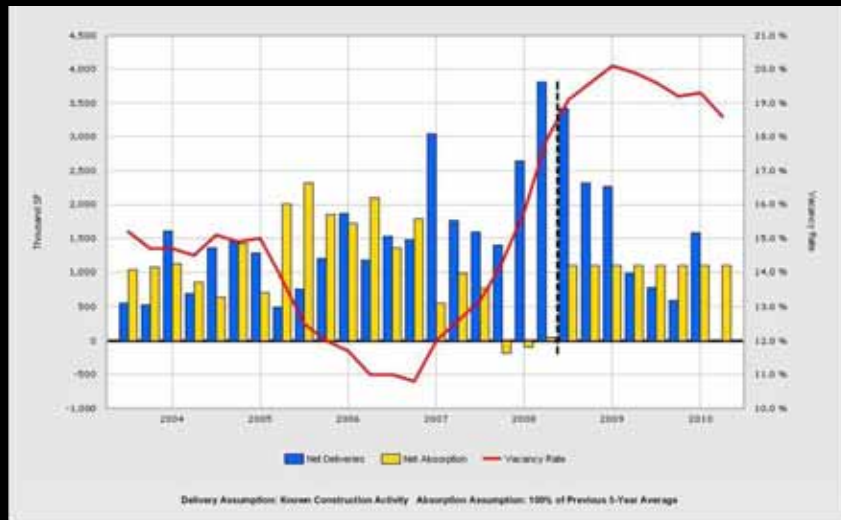
Price and Value Continue to Fall

The Commercial Sector is not Immune to Current Economic Conditions

Organic Deterioration

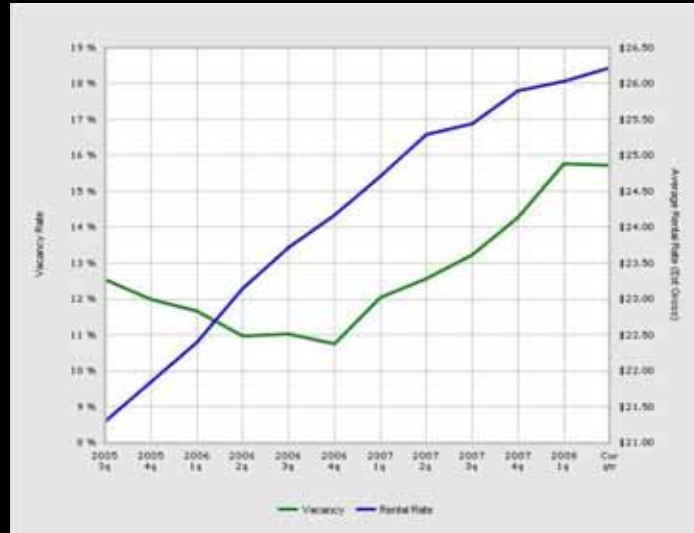
- Lagging Job Growth
- Residential Meltdown
 - \$1 in \$3 dollars earned in Phoenix is tied to the real estate industry
- Slowing Population Growth Predicted for 2008

Forecast Report, Office, Valley Wide



Vacancy Rates will Continue to Rise Sharply in 2008

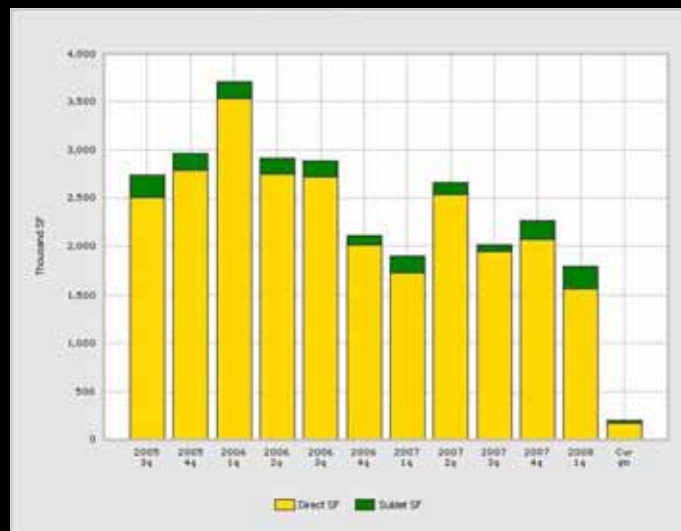
Office Vacancy Vs. Rental Rates, Valley Wide



Office Vacancy at 16%

Source: Co Star Group

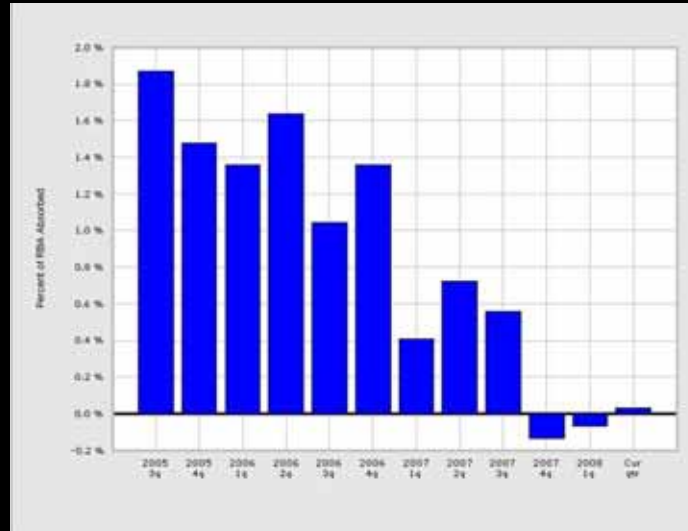
Direct and Sublease Leasing, Valley Wide



Sublease (and Shadow) Space on the Rise

Source: Co Star Group

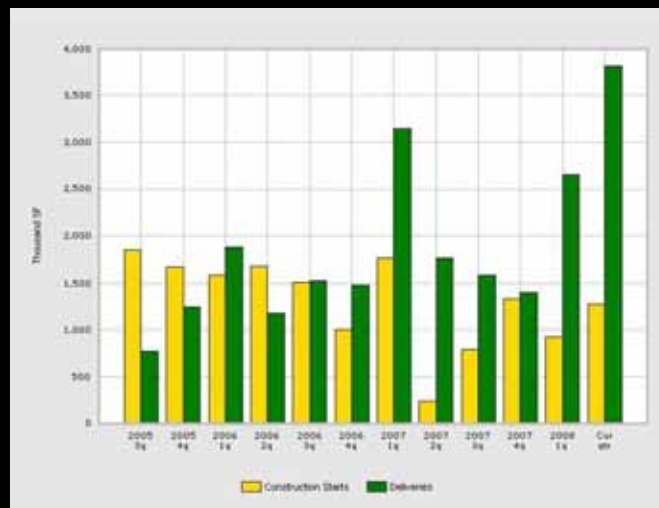
Net Absorption Rates, Office, Valley Wide



Net Absorption is Negative YTD at (48,725)

Source: Co Star Group

Construction Starts & Deliveries, Office, Valley Wide



Currently, 1.4M SF of Construction Starts Underway with 3.8M SF of Deliveries

Source: Co Star Group

What is Distressed Real Estate?

(Residential)

Types
of
Distressed
Real
Estate

What is it, really?

- Short Sale
- REO
- Probate Sale
 - Bankruptcy
 - Fiduciary



Short Sale



Don't Hold Your Breath

- Short Sale
 - Lender will accept less than the total amount due on the loan
- No Guarantee
 - Lender isn't obligated to accept the offer
 - Process can take weeks/months
 - In the meantime, buyer can get whole on loan



REO



REO 101

- Get your terms straight
 - REO = Foreclosure = Lender Owned = REPO
- Who is the elusive "Seller"?
 - Mortgage Company
 - Bank
 - Asset Management Companies
 - Hired to liquidate foreclosures
 - Government Agencies
 - Auction Houses



"Seller," "Bank" or "Lender" are used interchangeably and may refer to any of the above

Bankruptcy,
Fiduciary
&
Probate
Sales



Bankruptcy, Fiduciary & Probate Assets

- Bankruptcy Sale
 - Asset sold to raise money for the Estate and pay off creditors
- Fiduciary Sale
 - Asset Sold to raise money for the beneficiary or beneficiaries
- Probate Sale
 - Court appointed representative sells assets to pay off creditors and/or taxes owed



All require court approval to ensure maximum recovery for the estate.

*What's
Selling?*

What's Sitting?

Market Bright Spot



Can't All be Bad News...

Homes priced under \$250,000 are selling like Hot Cakes!

- The STARTER HOME is affordable again!
- First time buyers are moving out of their rentals and buying homes
- Smart Investors are looking for deals, rentals and long term fix & flip opportunities
- Low Prices + Low Interest Rates = Great Value
- *This price bracket is at or near bottom*



Of R.O.I.'s listings that are currently under contract, 82% are priced at \$250,000 or less.



Market Dark Spot



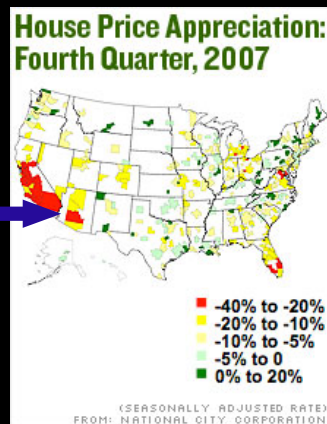
What's Not Moving?

- The Move-Up Market is Stagnant
 - Can't sell current home
 - If it sells, current home is not always getting the return homeowner hoped for
 - More opportunity in the move up bracket as prices continue to drop
- The Death of Fix & Flip
 - No buyers!
 - Too much inventory
 - Returns aren't there



Buying REO

Speculative markets, like Phoenix, parts of California and Florida are in the red.



Price & Value at Their Lowest Levels in 4 Years!

Home prices have dropped so quickly and so far that valuations - the difference between what a home should cost and its actual price - are the lowest they've been since 2004, according to a report from National City Corporation and Global Insight.

The Basics of Buying REO's



How Do I find an REO Deal?

- Ask an REO Specialist!

We ...

- Communicate directly with the Seller
- Submit offers to the Seller
- Know how Seller like to see offers
- Knows REO pitfalls and can often head them off



R.O.I. Properties currently works with about 20 lender-clients and has about 300 listings. We can find any SMOKIN' DEAL, whether they are our listing or not!

The Basics of Buying REO's



How Do I find an REO?

- REO's are valley-wide (and nation-wide!) and available at most price points
 - Drive through neighborhoods where you want to own
 - Most will have FORECLOSURE, LENDER OWNED or REPO on their sign
- MLS
- Internet Foreclosure websites, like Realty Trac, will charge a fee for access to foreclosure listings
 - Such sites are often inaccurate
- R.O.I.'s website has 300 distressed properties and counting!

BPO

Valuing an REO

- BPO or Broker Price Opinion
 - Mini appraisal
 - Based on home visit, photos, comps, state of home and market conditions
 - Offer recommendations on repairs and what they may cost
 - Recommend list price (if new assignment)
 - Recommend reductions, incentives and/or other credits to stimulate the sale
 - Updates BPO monthly for Seller's review



The BPO is proprietary information; the Seller can choose whether or not to act on their agent's recommendations. Buyer to do their own research and verify all facts.

Deals & Steals

Buy From a Seller who Actually Wants to Sell

- Responsive to BPO recommendations
- Price assets at or below BPO
- Incentives and Credits Galore
 - Bonus to Buyer's Agent
 - Buyer Closing Cost Credit
 - Repair Credit



Versus a seller who is artificially inflating their portfolio.

Incentives & Credits

Incentives total \$23,000!



9056 W Tonopah Dr Peoria, AZ 85382

\$375,000

4011 sq ft * 4 bed * 3.5 bath * Pool
\$10,000 Closing Cost Credit
\$10,000 Repair Credit
\$3,000 Selling Agent Bonus

\$38.9 after Incentives!



811 S 3rd Avenue, Phoenix, AZ 85003

\$54,900

1010sq ft * 3 bed * 1 bath
\$5,000 Closing Cost Credit
\$8,000 Repair Credit
\$3,000 Selling Agent Bonus

Buyer's Agent Earns \$5,200 Commission on an \$80k house!



6413 W. Granada Rd. Phoenix, AZ. 85035

\$80,000

1400 sq ft * 4 bed * 2 bath
\$1,000 Closing Cost Credit
\$3,000 Repair Credit
\$3,000 Selling Agent Bonus

*Write a
Credible
Offer*

Write
it
Up



Differences Between Buying Retail and REO

Know What You are Buying ... And Do your Inspection!

- REO's sold "As Is" and "Where Is" with No Seller Reps or Warranties
 - Seller never lived in the house and has nothing to disclose
- Response time is 3-5 business days
- Seller Designates Title Company
- No SPDS or CLUE Report



Your Inspection is very important. Always order one and use a reputable inspector.

Write
it
Up



An Offer the Seller will Accept

The Perfect Offer

- Within 92% of Ask Price
 - If priced near BPO Recommendation
- Money Down
- Proof of Funds
- Signed Addenda
- Be nice to your transaction coordinator!

Think Before You Low Ball



92% of List? No Way!

The Low Ball

- Sellers are not heavily discounting off of current valuation
 - Rather, Sellers are discounting to arrive at current listing price with incentives
 - 90% of R.O.I. sales are to owner-occupants, not investors
- Know what the home is worth and be realistic
 - BPO, tax records, comps
 - Sellers are not countering low balls, they outright reject them
- Portfolio Sales
 - Coming down the pipe but not happening yet



R.O.I. Properties

Window of Opportunity is Open

Great Deals in REO

- Currently, owner-occupant deals make sense
- Buy for the long term
- Investment opportunity is coming, the fundamentals are there
 - But stick to an acquisition strategy!



Use Market information wisely to **SEIZE YOUR DEAL!**

Thank You!