

WILL THE REO LENDER DISCOUNT PRICES AS VOLUME INCREASES?

I probably need an attitude adjustment. I keep thinking that I can uncover properties at a price at least twenty percent under fair market value---or I won't buy them. Is this objective too unrealistic these days? Maybe I have been looking in all the wrong places!

We have already talked about the recent changes in direction of the real estate market. Properties sold back to the foreclosing lender that are then offered for sale to the general public have been hard to find for a long, long time. That scenario is seen less often today as more and more property are reverting to the foreclosing lender as was common in the late eighties and early nineties. Maybe this is the best time to take another look at the disappearing twenty percent discount in the purchase price. Let's take a look at the foreclosing lender with his now burgeoning inventory of available properties. Surely, that lender recognizes the inevitability of price lowering when the inventory becomes unmanageable.

At this time, however, I find no interest in this shift in attitude among the major, institutional lenders. Such companies now are beginning to offer a property to suit every taste and size. The promotional procedures they utilize are the very best. You see full page ads in the Sunday papers as well as prolific reminders of the availability of these properties throughout the week. Financing to buy the chosen property is excellent. "Spare no expense. We've got to move these babies!" is the rallying cry.

In ordinary times, we could expect to see price reductions as inventory gains upward momentum. Not so just now. We don't see significant price reductions offered by institutional lenders---yet.

Part of the reasoning is easy to understand. Each such firm must be profit-driven. The odor of the hot real estate market has hardly blown away today. The public still has a slightly hazy picture of the ideal and accessible property that is just beginning to fade after so long a time. The lenders quite reasonably retain that demanding image as they mimic the earlier property purchasers who could only see the market sunshine without the inevitable dark clouds. "What do you mean, discount the selling price? We are still in the throws of the most mammoth growth in the real estate investments than has ever happened before!"---or are we?

Even the trustworthy, in-house real estate agents and brokers who are part of the machinery in the major lenders' companies just now are getting the idea that the heady days of the bull real estate market in real estate is really, really gone now. With many more properties to offer the public, lenders are in the uncomfortable position of acquiring properties with very modest remaining equity after the trustees' sales. Such lenders have the same problems that individual investors have who buy at the trustee's sale. What is it going to take to change this from a non-performing asset (which are just sticks and bricks) into a money maker? The lender's unique, accompanying problem is the sheer volume of such properties as fewer and fewer buyers turn up at the trustees' sales to compete for the purchase of these low equity properties.

The first goal of any rational lender is to recoup the losses emanating from the bad loan that came back in the form of a property. Should the property just be given away to get this property off the books? I think not. What can be done to change this lemon into lemonade?

The REO lender who acquires a property through a trustee's sale has already taken a beating through the foreclosure of a non-productive loan. How bad can that be? That depends upon the next step.

That lender can make the property as attractive as possible through diligent property improvement and marketing. To expect that lender to jump at a low-ball offer for a property purchase by an interested investor is unrealistic. Right now, it just isn't going to happen.

Then, you would think that the prospective sales price of an REO property held for a long time surely would slowly migrate downward as days, weeks, and even months pass. As a long-time potential REO buyer, I often have been surprised by the intransigence of the REO lender who seems most anxious to pass along the accumulating costs of prolonged ownership to the new buyer. I seldom find the REO more willing to discount the selling price after little action follows the acquisition of a new REO property. You would think that such costs as utilities, maintenance, taxes, etc. would make that lender more agreeable to a lower, attractive price as time passes. I have not found that to be true---even in the past, earlier REO market. I can only assume that they want the ultimate buyer to cover those accumulating costs as part of the purchase price.

I wonder now how realistic it will be to uncover the recently immovable REO lender who will accept the writing on the wall. It appears that there will continue to be a growing REO property inventory. If you agree that the growth of the volume of REO properties is evitable, then it should be possible to get the some kind of a discount at a price set by the market. Usually, excess supply lowers excessive pricing.

Let's watch this market now and see if the inevitable happens---soon

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Topic: The volume of REO properties is escalating. Will the REO lenders now lower the prices as the volume of available REO properties rises?