

**CHANGES IN AVAILABLE FINANCING
AND THEIR EFFECT ON REAL ESTATE INVESTORS**

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For several years in Western Pennsylvania, real estate investors have heard seminars from out-of-state experts on the virtues of buying property substantially below market value, making some renovations to the properties and selling them at amounts approaching market value. This has been dubbed, "Buying Wholesale and Selling Retail" or "flipping". Until late 1998, there were many B & C paper lenders who were willing to loan money to the ultimate purchasers of these homes based upon their appraised value without consideration for the amount the investor paid to purchase the property, and without any extended period of payment by the end purchasers.

However, investors in and other areas of the country who "flipped" the properties from one investor to another to another and obtained over valued appraisals of property caused B & C lenders who loaned on these transactions to lose millions of dollars when payment was not made, property was foreclosed upon and foreclosure values were a small fraction of the outstanding loans against the properties. Many of the B & C paper lenders who were most aggressive in accepting these deals went out of business, and those who remained in business have tightened their requirements for review of purchase prices, creditworthiness of the borrowers and appraisals.

Although, there are still some exceptions available, the general rules we have observed followed by many lenders include careful review of the appraisal and purchase price of any property required by the seller within a year of the prospective sale to their borrower. If you bought a property for \$10,000 and are selling it for \$40,000, the lenders make the appraisers aware of your purchase

price and require explanation from the appraisers or review appraisals including information on the amount of renovation work done between the purchase and prospective sale to justify an increase in the purchase price.

Lenders are also looking for at least twelve months of consecutive on time rent payments and other measures of credit of the borrower to reduce the risk that the borrower will default early in the period of their new loan.

With all of these changes, can you still make money buying property wholesale and selling retail? Absolutely. However, you have to be prepared to hold the property for a period of time sufficient to allow the buyer on your rent to own or installment land contract to make twelve consecutive on time payments. You also have to consider doing more renovation work and keeping careful records of the work you have done. Improvements to such items as roofs, kitchen, baths, window can often make a substantial difference in the value of the property and justify a substantial spread between your purchase price and sale price. However, these changes also suggest that many investors should consider the strategy of real estate investment which has been over looked by many in this area in the last few years. There is nothing wrong with buying properties below market value and renting those properties at market rental value to tenants who have no expectation of being able to purchase the property. As long as you create a positive cash flow with rental income exceeding your financing payments, taxes, insurance and maintenance, acquisition and holding of real estate can still be a wonderful investment.

Where else can you acquire an asset with little or no money down, have someone else payoff your debit to acquire the asset, and have an asset likely to appreciate in value over the time you're

holding it? While flipping can generate immediate cash returns, buying and holding property for rental generates long term cash flow and wealth in the nature of ever increasing equity. If you are experiencing more difficulty with flipping properties and are looking for an alternative, I urge you to consider applying your skills in finding property below market value to the time honored method of holding property for rental. If managing your property is not your strength, as long as you get a good enough deal on the acquisition, many properties will support hiring a property management company to relieve you of that burden and allow you to continue to focus on acquisitions. Why many banks will not allow you to acquire more than four or five properties for holding before they want to limit your additional individual loans, it is possible to find a bank to refinance groups of your properties after they have been rented and have at least a one year history of positive cash flow. Once you do this, you can then go on and acquire additional properties.

If, in this way you are limited to acquiring only four properties per year, over five years you will still own twenty properties with positive cash flow and be well on your way to financial independence.