

Bargain hunters

BY KATHY MCCORMICK, CALGARY HERALD FEBRUARY 14, 2009

There are several old adages that people would be wise to remember when it comes to snapping up a foreclosed property in the sunbelts of the ravaged U.S. home markets.

Try, "You get what you pay for."

How about, "If it looks like it's too good to be true, it probably is."

But Ron Cadman has this to say: "If you want to find a single-family house for, say, \$65,000 US, we can find one."

Cadman is one of two Calgary brothers who are partners in CBIGroup, a real estate investment company that has recently concentrated on Phoenix, Ariz., buying distressed homes to rent until the market changes.

"But you'd probably have to put \$30,000 (US) more into it to get it livable," he says. "The home will probably be as far from the centre of Phoenix as you can find, the kitchen cupboards will have been torn out ... and the air conditioning units are gone."

Some people are so upset about the foreclosure that they have destroyed the home, even to the extent of pouring concrete down sewer lines, he says.

"Don't be fooled by the price--and don't buy online without looking at the property yourself," he says.

Cadman recommends interviewing two or three brokers before hiring one to work with you when you are looking. They know the areas and the home values, and if they're good, they'll get to know what you want.

"Secure a critical-thinking realtor," says Cadman. "There is so much product on the market and some realtors may not put in the time to do the research.

"Become an educated buyer so you can make a smart choice and informed decision. That means checking out the areas yourself as well. If you've never been here, come down and spend some time, so you know the neighbourhoods where you will want to buy, the amenities that are there, and the prices of other homes in the area. Then be patient.

"There are a lot of homes to choose from." No kidding.

Arizona had 11,000 notices in October of so-called trustee sales, or foreclosure auctions, says a recent report from RealtyTrac Inc., a real estate data firm in Irvine, Calif.

That, in turn, was the biggest reason the cost of single-family homes fell 33 per cent in October in Phoenix, compared to the same month the year before--the biggest drop in home prices in the whole of the U. S., says an S&P/ Case Shiller index.

But it's complicated to buy, says Cadman, especially if the homes are foreclosed, or in the throes of becoming so.

Credit has tightened; foreign ownership faces tougher restrictions; U. S. tax laws differ from Canadian laws; and there are other factors you might not even know about that you need to explore.

For example, you should not only get a home inspection before you buy, but also undertake inspection for termites.

And don't forget the "deal" needs a 25-percent premium attached to it to counter the current lower value of the loonie compared to the U. S. dollar.

"Before you do anything, come down and get your financing lined up, whether you're buying a second home or investing," says Cadman.

Check out financing through Canada as well. It may be more advantageous, and easier, to leverage against your Canadian equity in order to pay cash for your purchase, rather than trying to negotiate a mortgage in the U. S., where the credit industry is volatile and rules for foreign ownership have tightened.

CBI Group has figured it out, although the homes it buys are not for recreation property, but rather for investment. The company has been working in Phoenix since 1984.

"I learned at a young age you need cash to get equity--and that came from investors," says Travis Cadman, the other partner. "When we had over 1,000 investors, we formed CBI to manage our projects and get our brand known."

Since then, the company has expanded to other areas in Canada and the U. S.

"The sub-prime has created opportunities for us and our investors," he says of the recent push to buy in Phoenix.

To date, the company has bought 16 homes it intends to keep for five years, leasing to permanent renters until the market hardens and the firm can sell at a profit.

The criteria the company uses to buy the homes are strict--and there are no deviations, says Ron.

"Homes are all single-family averaging 1,863 square feet, and so far, the average price is between \$125,000 and \$130,000 US," he says. Tenant rents are averaging \$1,090 per month.

Homes must meet these minimums in order to qualify as a good investment for the group:

- They must be in certain neighbourhoods the investors have tagged as desirable. The top 10 for CBI are Phoenix, North Phoenix, Glendale, Mesa, Tempe, Avondale, Gilbert, Chandler, Apache Junction and Peoria.

- They must be in an area that is desirable for renters, but not an area flooded with other rental units or, even worse, with many other foreclosures, or homes for sale or rent.

-They must be within close proximity of shopping and schools and within about a kilometre of the major ring road (the 101 freeway).

-They must have a minimum of three bedrooms and two bathrooms.

-They must be built after 1994.

-They must pass a home inspection with an average of \$2,500 in repairs needed to get it to market.

"If it needs more, we will want more off the purchase price," says Ron. "Every house we buy is distressed, but if there is more than \$5,000 of work needed, we walk away. We look at 100 homes and will maybe buy 10."

-They must represent good value. The Cad-mans have a detailed assessment of homes in the area, peak prices and what homes are currently selling for in that area, how many are for sale in the area, and other criteria to determine a home's value as compared to what the house is selling for--and whether a lower price can be negotiated.

"We expect the market to recover 70 to 85 per cent of pre sub-prime prices within the next three to five years," says Ron, qualifying that statement with the observation it needs to be the right house in the right location.

The group doesn't rule out auctions, but only if they fit the same strict criteria.

"We do all the work before, including knowing how much the bank will bid on the house," he says. "By the time we're done, we know the houses like our own kids and all of the guesswork has been taken out of it."

The company plans to buy as many as 175 Phoenix properties with investors putting in cash outlays in units of \$10,000 Cdn. Thirty-five per cent of the investors are Calgarians.

Buying for investment is a different animal from buying for recreational purposes, says Ron.

"It's all about location," he says. "You want to buy in great rental markets for value."

Don't be emotional about the buying decision, he says. "It's all about numbers. You don't want a place that's beat up. You want one with a minimal amount of work needed to get it to rental condition."

Other tips for investors: "Before you close or before all your costs are finalized, do a professional property inspection--and understand what services that inspector provides because there are good and bad inspectors, just like anything else," he says. "Be a patient investor. You have the opportunity to buy in a very depressed time, so do it long term."