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Distressed Properties Offer Good Investment Opportunities But Beware of the Pitfalls and Challenges

By Val Cook-Watkins

We all love a good sale - walking into Nordstrom's and seeing that perfect black dress or handsome Armani suit marked half off. Who can resist such a great bargain? Well, that's exactly what's happening with some parts of the real estate market these days. Specifically, banked-owned properties and "short sales" - those homes selling for less than their mortgage - offer tremendous opportunities for bargain hunters.

Distressed home sales have soared in Contra Costa County. More than half of all properties for sale in east Contra Costa are bank-owned, and the number is rising rapidly in the Lamorinda area - perhaps around 15 percent today and climbing. There are still values to be had with properties selling for up to 50 percent discount over previous prices.

But buying distressed properties has more than its share of challenges and pitfalls. There is a lot of competition for that marked-down three-bedroom, two-bath rancher in Lafayette. And working with banks requires a tremendous amount of time, patience, fortitude and expertise. If you're thinking of venturing into this arena, here are some tips to help you succeed:

- Work with a professional. Perhaps more than any other type of real estate, distressed property investments require the expertise of a professional Realtor with experience in these transactions. They know what to look for and what to avoid; all the financial, legal and disclosure issues; and how to prepare an offer in such a way that the bank will even consider it.

- Submit a solid offer package. Your offer package should be thorough, professional and well-documented. Loss mitigation specialists will look for all of the required documents in a short sale package so they can move forward with a proper financial analysis of the proposal.

- Make a significant downpayment or all-cash offer. Remember, there is generally lots of competition for the best property bargains. If you intend to come out on top, you need to make the most attractive offer possible. A large downpayment is critical and an all-cash offer is the best of all. If you are financing the property you should have the loan approval already from your lender. In some cases, the bank that is selling the property may still require you to go through them.

- Inspections are critically important. If you're buying a distressed home, it's important to have good inspections. More often than not, these properties have significant neglect or even outright damage. The previous owners probably didn't have the money to do the ongoing maintenance, let alone any updating of the property. Many owners losing their property are angry and some will take toilets, appliances, copper piping - literally anything up to and including the kitchen sink. In one Lafayette home, the previous owners even spray painted the house on their way out the door!

Buying a distressed property can prove to be a great investment. Prices are so low right now that you could buy a home and rent it until real estate prices rebound, enjoying a positive cash flow in the meantime. But as I discussed, this is a complicated area that is fraught with challenges. The first step is having a Realtor on your side.

Val Cook-Watkins, Manager of Coldwell Banker Residential Brokerage's Orinda

offices, provides the above tips. A 30-year real estate veteran, Watkins oversees a talented team of 78 real estate professionals in the East Bay. Her offices are located at 5 Moraga Way and 2 Theatre Square, Suite 211, in Orinda. She can be reached at 925-253-4600 or by e-mail at vcCookWatkins@cbnorcal.com.

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