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Forever Cash Real Estate Podcast 005

How to Choose the Best Properties to Buy at Tax Deed Auctions, Be the Winning Bid and Do it All in Your Pajamas

Hosted by: Jack and Michelle Bosch

Intro: Are you ready to transform your financial future? Here's your chance to see inside the mindset of self-made millionaires, Jack and Michelle Bosch as they go back the curtain on secrets that can make you rich. Discover how everyday people are breaking the norms and building empires from the ground up using a little low yet proven and time-tested wealth building real estate strategies. It's my pleasure to welcome you to the ForeverCash.com podcast and introduce you to our hosts, serial entrepreneurs, investors, educators and best-selling authors, Jack and Michelle Bosch. Strap yourself in for the ride of your life.

Michelle: Hello everyone! This is Michelle Bosch and...

Jack: ...Jack Bosch. And, we're excited to be here today for the Forever Cash Real Estate Podcast. So Michelle, what are we going to do today?

Michelle: I think I would love to interview you on tax deeds and tax deed auctions. I have actually attended a couple of auctions in California and a couple of the northern counties. But, I think this is an area where you have attended so many more. And so, I would just like to go ahead and interview you on this subject.

Jack: All right. Sounds good. Let's get it going!

Michelle: Okay. So, let's start up...

Jack: Wait. Wait. Wait. Wait. Wait. Before, I want to remind everyone quickly that you can get a free mini course on tax delinquent investing on our website, www.ForeverCashFreedom.com. So, make sure you go to ForeverCashFreedom.com or write it down right now and go there later. And...

But now, let's start the interview. I'm nervous to see what you're going to ask me.

Michelle: Okay. So, let's start at the beginning. So, for everyone joining us and for everyone out there who... Perhaps, this is their first time listening to us. I would like for you to explain what's the premise behind tax deed auctions or tax deed property.

Jack: All right. Very cool! Well, the basic premise... And, if you listened to some of our other podcasts, you might have already heard about that. But, if you're brand-new to this podcast... Well, first of all, also welcome! And all we do, Michelle and I, is based on tax delinquent real estate investing. So, the premise behind tax deeds as well as tax liens, as well as any other of the techniques that we do and teach is basically the fact that there are people out there who do not pay their property taxes.

So, the bottom line is... In the United States, every piece of real estate has property taxes. This means that when you buy a piece of real estate, with it comes the obligation of paying those property taxes. If you don't pay or if somebody doesn't pay the property taxes on their property... And, it doesn't matter what kind of property it is. It can be a piece of land, a house, a condo, a commercial or industrial real estate, whatever it is. If they don't pay that, ultimately what will happen is in one or the other way, the county or the government will take that property away from them.

And, they will do that in one of two ways. One is called the tax lien where they actually issue a lien against the property, and then sell that lien at the auction, and then the lien holder has several rights. One of them is to foreclose on the property down the road. And, the other one is what you just asked me. It's the tax deed process where the county acting for the state does not issue a lien. They just wait a certain time period and basically that time period is defined by the state statutes and that is also called a "redemption period." So, that's the time that they have to wait before the state can either, through the county, foreclose on the property or just simply take the property and in either case, puts it up on an auction and sells the actual real estate at a public auction.

And, that real estate auction is called the "tax deed auction" because whoever wins that auction, the highest bidder is going to get a deed to the property and becomes the new owner. So, there's no liens involved. There's no waiting periods involved. Simply, they'll get a deed and they'll become the new owner. It's like the Wild Wild West, if you don't pay your property taxes... Guess what? The government... The sheriff comes. In this case, the county treasurer comes and takes the property away, puts it up for auction and anyone can attend these auctions and buy properties at those auctions.

Michelle: Okay. Now, for the guys, for the property owners that are losing their property, does that affect their credit?

Jack: All right. That's a great question! I get that question quite a bit. Well, at the beginning, I didn't know. Well, when we first attended these auctions, it's like, "Hey! We're going to buy these properties at the auction. I don't care what happened to the person that lost it." But, I did do care and I did want to look it up. And after looking it up, the answer is no. And, the reason that it's a "no" is because of the kind of debt that it is. Because think about it, when you go to get a mortgage for your house, when you go sign the mortgage for your house, you personally sign that you get that loan. And therefore, a mortgage on a house is what's called an "in personam" debt.

Basically, you are the person who in person, in personam (in person), signed for that loan and the real estate, the house in that case is just a collateral that the bank can seize if you don't pay your mortgage. This is different in the property tax world because when you bought a piece of property, you never signed any mortgage or anything like that. You never signed anywhere that you are going to pay something on an ongoing basis. So, the thing is... As a matter of fact, a deed doesn't even have the buyer's signature on it. The deed only has the seller's signature.

So, the seller gives the buyer the deed to the property and the buyer just basically accepts the deed and gave the money for that but that's it. So therefore, the property taxes are what's called an "in rem" debt. Basically, at the same time, you still have to pay property taxes. But, you never signed up for that. So, the thing is... Therefore, the state cannot go after you if you don't pay the property taxes and they end up selling the property at the tax deed auction because you never signed anything that says that you're personally responsible for it.

In essence, it's like every property that you buy comes with built-in property taxes that you have to pay if you want to keep that property. That's kind of the key thing. So, if you don't want to keep that property... Hey! Don't pay the property taxes. And, the only way the county can act is after a certain time they take that property away from you. But, they cannot affect your credit with it because the debt was not authorized by you. The debt, the property tax debt came with the property in rem. So therefore, it's called an "in rem" debt. And "rem," the word "rem" means thing in Latin. So therefore, the debt is in the thing. And with that basically, as the phrase mentioned, you know that it does not affect your credit.

Michelle: Okay. Great! So basically, what you're saying is that the county needs tax money. And, there's people out there that are not paying their property taxes. And when they don't pay the property taxes, because the county needs money for school districts, for highways, for whatever public use, the county then puts up these auctions that properties are being sold. And basically, that's the way you could lose a property at a tax deed auction. Wonderful! Now, does that happen with...? I mean, is this happening all over the U.S.?

Jack: Yes, it is happening all over the U.S. However, it is not happening exactly that way in each state. As I mentioned, there's the other process that's called the "tax lien" process. And, it's pretty much 50-50 in the United States that half of the states are tax lien states, as we call them, and half of the states are tax deed states. And, as a matter of fact, we put together a little spreadsheet for that when you go to the notes which are on our blog on ForeverCash.com/Podcast. When you go to ForeverCash.com/Podcast, you can see the same podcast there as well as notes and a summary to the podcast underneath it. You can find these there. So, you can just download them there. It's just as a "thank you" for listening to this podcast. You can go there.

And... But, to go back to the answer, we basically... Or, let me say this first, the document that you can download there shows you which is which and what are the very simple rules in terms of like... If it's a tax lien state, what are the interest rates of the tax lien states? How many years does a piece of real estate have to be delinquent before it actually goes on the auction? So, it shows you that. But in essence, yes! It happens all over the United States but only in half of the states. Yet, those half of the states are spread all over the United States. There's states like Texas... There's states like California and many, many other states around the country.

Michelle: Okay. So now, let's take a closer look at how the actual auction works. What are some of the ground rules involved in order to go out there and bid? You don't want to just go and show up and bid on any property. So, what are the ground rules? How does the auction work? I mean, I assume you're bidding on something obviously. Just tell us how that works.

Jack: All right. Wonderful! Yes, the ground rules are really very simple. In almost all cases, the amount of property taxes owed, by the time the property comes up for auction, is the minimum bid that the county comes up with. So, let's take an example of California. In California, it takes five years before the county can actually bring a property up for tax deed sale. So, for five years, nothing happens. In five years, the owner does not pay the property taxes. And, if anytime during those five years, the owner decides to change his mind and pay the property taxes, he can anytime do that, and then just go and pay it with penalty and interest and so on.

Now, the interest accrued in the state like California is 18% and when they have to pay it off, they have to pay basically the back taxes, plus interest, plus penalties, plus some fees. So, it can add up to a nice chunk of money. But, if after five years, they have not paid their property taxes, the county now goes to the court and says, "Hey!" and gets the right to sell that property. Now, in other states like Texas, for example, the county actually goes to the court and gets the right to foreclose on that property. So, in other states, it works the same way. For example, in Arkansas, it's the same way. The county actually first forecloses on the property and then puts the property up for tax deed sale.

So bottom line though, in all these states, no matter how long it is in some states... In Texas, it's only two years. In California, it's five years plus the time that it takes to put the property in auction. So, when the property comes on auction, typically the amount of property taxes owed is the minimum bid. So, let's have a quick number as an example on that. Let's say there's a piece of real estate that's worth $100,000. It's either a small house or a nice piece of land, a condo, whatever it is. Let's say it's $100 grand. That property has $1,000 per year in property taxes and after five years, well, that's $5,000.

But not really, because the first year accrued 18% interest every year and after three years, that $1,000 is already $2,000. After five years, it's already $4,000 and the same happens with two years, three years, four years or five years of these property taxes. So, it's very possible that after five years, this property has accrued, between back taxes, interest, penalties and extra fees that the county slaps on there, a good amount of perhaps $15,000. Now, in that case, when the county puts that property up for auction, it will put the minimum bid at $15,000 and the bidding starts there and there's no reserves because it needs that...

Michelle: I was going to ask if those were absolute auctions.

Jack: Yes. These are absolute auctions. There's no reserves in this case. You can literally show up and if nobody else shows up and you're the only bidder at $15,000, you get a $100,000 house for $15,000.

Michelle: Now, who advertises these auctions? Like, how can you find? Where do you find them?

Jack: Well. Very good! So, also before, I wanted to say now that in all reality, there is competition at auctions.

Michelle: Yeah.

Jack: So, that's obviously one thing. So, in very few cases, when you'll be able to walk up to the county and buy properties at just its minimum bid. Now, it does happen and I'll show with you later on, probably if Michelle asked me about that, how that works and how you can get the best deals for the least amount of money. But back to the topic, what was your question again? I'm sorry.

Michelle: So basically, how...?

Jack: It's how it works between a husband and a wife. You forget what you ask.

Michelle: Yeah. How do you find out what auction is happening?

Jack: Oh! Yeah. Yeah. Yeah.

Michelle: And, what properties are in the auction? Where do you get that info?

Jack: Well, first of all, if you downloaded from the podcast notes the sheet that tells you when or which state is the tax deed state and which state is the tax lien state, you can simply take that information and then go online. You can go to that state and get a list of all the counties in there, and then just contact them or go to their website and see when their auctions are happening. There's also services out there like TaxSaleLists.com and couple of other services.

And by the way, if you don't write this down, it's also going to be in the notes. So, you find that you can actually these lists directly. They charge anywhere from $5 to $25 and sometimes $50 for a list. But, you can get them for free from the county if you put yourself on the e-mail notification list from them, as well as perhaps the mailing list from them so that they let you know when their next auction is coming up.

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And again, it depends by state. Some states only have one auction a year per county. Some states have an auction a month per county. Florida, for example and many, many counties have an auction every single month. Now, as a result, there's not that many properties coming up each auction every month. It might only have 10, 15, perhaps 50 properties coming up for auction every single month, versus a county that has only one auction a year. They might have 400 coming up once a year. But, if you work multiple counties on that in one state, you will have plenty of deals to go after to make a good living with this.

Michelle: Yeah. And, another thing that I would like to add is that the auction is going to happen live at the county but they're also happening online.

Jack: Yes, absolutely.

Michelle: So, there's...

Jack: As a matter of fact, the vast majority of auctions that I have attended were online because I'm lazy. I like to be at home. I like to work from my computer. I like to work while in my jammies and having a cup of coffee next to me. I don't want to fly over there somewhere and spend a bunch of money, get a rental car, get a hotel room, and then go attend a bunch of auctions where I don't know if I'm going to get something in the first place. So, a lot of these auctions are happening online. And, even the ones that happen physically often have an online component nowadays that they allow telephone bidding or online bidding. So, there's plenty of opportunities for you to do this from the comfort of your home.

Michelle: Okay. So now, the first step sounds like it's getting a list. What is the next step? Or, what's the sequence of steps in order to go ahead and get involved and bid at an auction successfully?

Jack: All right. Well. Very cool! So, let's talk about that part. So, first of all, you need to obviously select your state and your county in an auction. All right. You need to select that and right there, there is something that you want to think about. My experience is that the auctions in big metropolitan cities or counties have a huge amount of competition. I mean, I have attended an auction in Houston one time when I had 200 properties for sale and 800 people showed up. I mean, if that happens, almost every property has going to go... The bidding has going to go through the roof because you have four people, on average, bidding for every single parcel. And, in all reality, you'll probably going to have 50 people bidding on some properties because there was once like this.

Michelle: And yeah, that was my experience in Sonoma County. I mean, it was so incredibly competitive out there that it almost felt like being a shark tank.

Jack: Right! Exactly. At the same time.... And, Sonoma County is just outside of San Francisco. It's very attractive, very nice.

Michelle: Vineyards, redwoods... Yeah.

Jack: Vineyards, redwoods, high real estate prices close of metropolitan area. However, if you go into a little bit more rural area, what you will find is still a lot of properties. Actually, as a matter of fact, perhaps even more properties for sale at the auction yet at the same time, it's a different mix of properties and there's much lower prices. There's some other things that you need to take in consideration there but we'll probably cover those later.

So, the first thing is you first need to pick out what you want to do. This pertains to what state and what county you want to pick. So, perhaps you pick a county in a little bit more of a rural area not too far away from where you live which perhaps has one city with 50,000 people. Let's just state that as an example. That means that there is some attractive stuff there. There's some houses there. There's some commercial property there. There are some condos there. There are some land there. There's some recreational things there. Yet, at the same time, prices are low and competition might not be very high at the auction.

Michelle: Uh-huh.

Jack: So, that's number one. Then, once you picked that, you basically need to get the list. That auction still has another two to three months to come up. So, get yourself on the mailing list to that county and make sure that you are one of the first people that receive that list.

Michelle: Uh-huh.

Jack: And, once you have that basically, you go and you need to start your analysis of these people. You need to start the analysis of these properties. And...

Michelle: So, how would somebody go about that if they've never done this before? How would you go about filtering that list?

Jack: All right. Very cool! So, in a sense, the filtering of the list works very simple. The property, the list that you get usually does not have the owner's mailing address on it, and you might or might not need it in the first place. It doesn't have it on it but it usually has the property situs address on it. It basically has the actual property address, the owner name and it basically tells you the amount of property taxes owed which is an indication of the value of the property. So basically, you can just go and sort these properties by value. As you probably know, Michelle and I talked about it extensively. I'm the first one to admit or say that... Yes, some people let their properties go to tax deed sale because they're junk.

Michelle: Uh-huh.

Jack: Betterly, because they're like post-it sized, little properties or they have like these measuring errors where they call it the property that's like between a road and a private property or ditch that's like 3 feet wide and 1,000 feet long and you're thinking that you're getting something 3,000 $ft.^2$ in downtown Manhattan. But guess what? It's a measuring error that you can do absolutely nothing with. So, as a result, you want to discard those. But, the thing is, you can tell often that it's a measuring error by the value because a post-it sized measuring error of a property probably only has a value of $1,000 or $500. So, three years or five years' worth of back taxes will probably only add up to $147.

Michelle: Hmmm.

Jack: So, if you see something that has $147 for five years of back taxes, rest assured, it's junk and you can delete it. So therefore, what we do is we want to sort it by property tax amount. And, at the same time though, if you see something that has $500,000 in back taxes, then number one, there's a budget issue because if you don't have.... At the auction, you're going to start the bidding at $500 grand. If you don't have $500,000, or even $50,000, or whatever your threshold is, you want to eliminate everything that has more back taxes than you have money.

Michelle: That makes sense.

Jack: Because at the auction, you have to actually bring cash or cash as check. Usually, if it's an online auction, you have to register before. You have to put a deposit down. It's refundable. And then, they give you like another week to pay up. But, if it's a live auction, you literally have to have cash as check in your pocket, or they'll give you until 5:00 PM that day to come up with the money. So, if you have a budget of, let's say $15,000 that you can bid on well, eliminate everything where the minimum bid is over $15,000 because by definition, you cannot get it.

Michelle: Uh-huh.

Jack: At the same time, eliminate everything that has probably under $1,000 back taxes because if something has three, four, five years of back taxes and has accrued only $1,000, it's junk.

Michelle: Now, if you have access to hard money or to funds in some way, of course, you don't want to eliminate properties based on these criteria. You want to then cherry pick.

Jack: Absolutely!

Michelle: But, if you want a budget, then what Jack just talked about completely makes sense.

Jack: Right. Absolutely. I mean, I'm talking about the total amount of money that you have available to go to the auction with. If you partner up with somebody who gives you $100,000 check who says, "I trust you to buy the right thing," then obviously, your budget is not $15,000. It's $100,000 plus with the right money you have yourself. So, just look at the budget you have and that's the first filtering mechanism. Get rid of all these things.

Then next, if you want, you can look at where the owners live. But sometimes, that's a little bit of an extra effort to look at where the owners live. And then, basically the owners live... Because some counties have... If they don't know where the owners live, then they're going to say like "unknown" or so which tells you that nobody's currently able to get a hold of these owners. And therefore, this is a property that for sure will make it all the way to the auction...

Michelle: Yeah.

Jack: ...Because something peculiar is happening at auctions. And, that is something that in the two, three days or all the way up to the day before the auction, a lot of these properties are still getting redeemed because redemption period in most states doesn't end months or years before the auction. It often ends just the day before the auction actually happened. So therefore, it's very frequently the case that out of 400 properties that come up to auction, 300 or 250 of them are getting redeemed within the last week before the auction actually happens. And therefore, they get pulled from the auction. So, one of the things you want to do now is, in the next couple of steps, you want to make sure that you only spend your research time on the properties that actually will make it to the auction.

Michelle: Okay.

Jack: So.... And, you do that in multiple ways. First of all, you can find out where the addresses are. If these people live far away, there's a higher chance that it makes it all the way to the auction. If it's "unknown" where they live, then it's almost sure that's going to make it to the auction and so on and so forth.

Michelle: Now, is there a key piece of research besides the mailing address of the property owner that everyone should be looking at doing?

Jack: Yes! And, that is actually what you want to find out. A key piece that often decides on whether or not the property will be pulled from the auction or will go to the auction is whether or not the property has a mortgage. Because here's the thing, I mean, let's take an example of a $250,000 house with a $200,000 mortgage. I mean, is the bank really going to let that property be sold at an auction? Because, one thing that I haven't even covered yet is, what happens if the property gets sold at an auction? What happens to the mortgage? And, that actually is the mortgage is gone. When the property sells at an auction, whoever buys that property buys, in essence, a free and clear property.

Michelle: That means that the mortgage is completely wiped out. Poof! Gone. Bye-bye.

Jack: Gone. Bye-bye. The mortgage is wiped out. Any kind of mechanic's liens, any kind of private liens is wiped out. If Uncle Bob gave an extra loan on it, or if you had some repairs done on the house, or if the owner had some repairs done on the house and didn't pay the handyman, he can file what's called a "mechanic's lien" against it and the mechanic's lien is wiped out. Everything is wiped out except for existing government liens. So, if there's an IRS lien, it stays on there. The back taxes obviously need to be paid still and they're being paid in the auction itself. And, if there's like a city or county assessment against the property, that also stays on there.

Michelle: So, how do you find out if the property has a mortgage?

Jack: Right. Very cool! How do you find out it? You got to do a quick, what's called a "title search." And so, at this point, I wanted to make sure that you don't hire a title company for this because they're going to charge you $75 per title search. Instead, what you want to do is, all you need to do...

Michelle: Well, that's actually for an abstract report which is not a full title. But, anyway, yeah.

Jack: Right. Right. Right. Now, a title company can charge you $75 bucks for a title report. For an abstract result... Now, of course, that's not title insurance and so on because you're not buying it with a title company.

Michelle: Yeah. Yeah.

Jack: Just a title search done through a title company or to an abstractor service. It costs about $50 to $90 with an average of probably $75. And so, you don't want to spend that money. Instead, as part of your preparation for the auction, what you want to do is you want to go to the county's recorder's office. It's actually online. You don't have to physically go there. You go there online because almost all counties in the United States, over 90% are now fully online. You can go there and you go to what's often called their "Grantor/Grantee Index" or something that's called "Document Search" and sometimes it's called "Recorded Documents." It's whatever you find there, basically. Go to the place where you can search their county records.

Michelle: And so, you're there and you're at the screen with the "Grantor/Grantee" and what do you do?

Jack: What do you do? You search for the.... And now, this is a little different. In most of real estate, we are used to searching for a property.

Michelle: Uh-huh.

Jack: In a title search, you'll actually look for the property owner's name. And, we have the property owner's name in the list that we got from the county. So there, yay! We’re at good set. We also have the parcel information, the parcel number and the legal description in list that we got from the county. So, what do you do? Let's say that the person that you're looking for is losing his property for nonpayment of property taxes and his name is Jim Beam. So, if his name is Jim Beam, you go into the county records and you go look for Jim Beam.

And, what comes up is, if he has another house, this will come up as two properties. And with two properties, it would show all the recorded documents for all the properties that he owns. And, what comes up is perhaps a mortgage for his house and a deed for his house. But, this is a second house, the one that he had used as a rental property and the one that he's letting go for auction right now. And so, on this one, you'll find that there is a mortgage and that there's a release to the mortgage, or you just find a mortgage and no release. And, if you don't find a release to the mortgage, that means that there's a mortgage on it.

Michelle: Uh-huh.

Jack: So... And then, you identify... And now, a good thing is that the list you got for a tax deed auction usually doesn't have thousands of properties. If you're doing this in Texas, you might have 45 properties coming up for auction. After you take the expensive ones out and the cheap ones out, you might have to do this on 20 properties. So, it's not something that takes a long time. It takes about 5 to 10 minutes per property to do this quick search. So basically, you spread this over a couple of days or a week, you do have an hour a day for a week and you're done with this. And now, you have done the research on the properties in terms of "Which one has a mortgage?" and "Which one does not?"

Michelle: Okay.

Jack: And now, what you do is you actually put them on two separate piles, I want to say. Now, if you're working on an Excel spreadsheet or a Word document, you separate them from each other because what you want to go for are the ones with no mortgage.

Michelle: Okay.

Jack: And, the reason is very simple. For the ones with no mortgage, there is no bank that's going to redeem the property because as I said, the county has... Well, I haven't said that yet. The county, by law, has to inform every single person that has an interest in that property before they sell this property at the auction. So, two or three weeks before the auction, the bank is receiving a letter from the county saying like, "Hey! This property that you have a mortgage on, we're going to sell this at the auction. And, if you don't act quickly, you'll going to lose your mortgage." So, the county puts the bank on a due. If it's worth it to the bank, if it's a $250,000 house with a $200,000 on mortgage, then they're not going to let that thing go.

Michelle: Uh-huh.

Jack: They're not going to lose $200,000. They're going to go and redeem it. So therefore, if you want to attend the auction, my question or your question is, "Do you want to attend?" "Do you want to do more research on properties that are probably going to be redeemed before the auction anyway, now that they're going to come up in the auction?" No! You want to know which ones they already have and you want to put them off to the side. And, you want to focus on your research on the ones that do not have a mortgage because those are the ones that most likely are going to make it all the way to the auction.

Michelle: Now... Okay, so you...

Jack: Does that make sense?

Michelle: Absolutely! So now, you have your list. You've narrowed it down based on the title search results on whether they have mortgages or not and you're left with the ones that don't have mortgages. Now, do you drive by these properties? Do you Google Earth them? What do you do?

Jack: Okay. Great!

Michelle: Or, how do you narrow that list even further?

Jack: Right.

Michelle: And, what's a reasonable amount or number of properties or list of properties that you're going to say, "Okay, these are the ones that I'm going to bid on." I mean, if there's 300 properties or 3,000 properties, more than likely, people will end up with maybe 10, 15 at the end.

Jack: Right. But usually, tax deed auctions don't have 3,000. Even a county like L.A. county or San Diego county doesn't have more than about 300 properties coming up for auction or 300, 400 in their list and they're only doing an auction once or twice a year. So therefore, at the end of the day, what comes up for auction is probably 150 to 200 properties. So, after selecting all the expensive ones and the cheap ones, in a county like that, you're probably left with 50 properties. And now, you can do even further things like if you like one area of the county particularly, or if you only like land versus houses, or only houses versus land. Land typically doesn't have a physical address.

Michelle: Uh-huh.

Jack: So, you can also separate those out by then. So, if you only want to go after houses, you separate and select only the houses, and now you have 20 left.

Michelle: Okay.

Jack: Now.... And after these, or 25 or 30 left... Let's just say 20. And, after you do this mortgage analysis, now we have 10 left. So, 10 is your target goal. These are the ones that you want to go after in this auction. Now, what you want to do in this case is... Yes, you want a drive-by or if you don't drive by yourself, you want to have somebody drive by. Now, if it's a piece of land that you chose as part of the list, you can get away without driving by, in my opinion. We have bought and sold over 3,000 going to 3,500 pieces of land ever since the end of 2002. And since 2006, we haven't looked at every single or any one of these parcels anymore. Except for last week, I went up to Sacramento to look at a property but that was a $200,000 deal to look in for that. So, I went into the plane and go look at it.

Michelle: Yeah. And, actually the back taxes at auction were $180,000. And so, Jack wanted the land to speak to him before actually paying the property taxes.

Jack: And, that was a little bit of a different technique that we used. That's our land technique that we also have a podcast for. I think it's episode number two or three that we have about that. But, bottom line is, it was a different deal. We had bought this property for $10,000 plus back taxes and the property would come up and auctioned just four days later. So, I went up there to look at it because it has $180,000 in back taxes. But usually, since 2006, we don't look at land anymore other than Google Earth and Google Maps.

Michelle: Yeah.

Jack: So, if it's a piece of land, you don't necessarily have to drive by it. But, if it's a house, you want to have somebody drive by that property without any exceptions. And, the reason is very simple and the reason can be best shown perhaps in a story. I've heard of somebody that went and attended a tax deed auction, bought this beautiful house, only to then afterwards take a plane, fly out there and realize that the beautiful house that he saw on Google Earth that looked absolutely amazing was actually a burned down ruin that had been burned down half a year ago but Google had not updated their pictures yet.

Michelle: Holy crap.

Jack: So therefore, as a result of that, they have bought something that was worth a fraction of what they had paid and worth a fraction of what it was worth and effectively had way overpaid at the auction for it. So, you don't want that to happen to you. So therefore, if it's a house, make sure that somebody drives by as close to the actual auction as possible. So, if the auction is on a Friday, literally have somebody drive by there on Wednesday or Thursday to make sure that the property is still there, take pictures of the property and send them to you. And, there's services where you can like defer that out there. Again, we can put some of those into the meeting notes. I think one of them is called "Go see here" or "Go look here." I'm not sure exactly which one of the two it is anymore, but we'll find it out and we'll put it on the podcast notes for you. All right. So now, after that, you have your list.

Michelle: Uh-huh.

Jack: You look at something and if you don't really like it, if it's a burned down house, or something like that... Well, depending on what your outcome is or what you want in the deal, you now know if it's worth or not to bid on it and what your maximum bid on this.

Michelle: Okay. So now, we have our list. At this point, we're maybe one or two weeks out. And, what's the next step? What do we do?

Jack: Well. At this point, you now make your final list. And, your final list again is driven by your budget. It's driven by the kind of properties you want go after and it's driven by all this analysis. And now, you prioritize this list into, "What is the number one property that I want? The number two? The number three? The number four?" And, if it's possible at the auction, you go and go down that sequence. Now, if number four comes up first before number one, you want to bid some of it but you don't probably want to give up all your money and bid all your money on a property that's not your highest priority. At the same time, you want to balance it out. But, the most important part you want to do now is actually register for the auction.

Michelle: Yeah! Absolutely.

Jack: Because that's the number one thing. Now...

Michelle: And, some of them might think that you need to pre-register at least a week in advance

Jack: Right.

Michelle: And be like, approved by them as a bidder, and you actually might even need to shell out some deposit.

Jack: Exactly right. Exactly right. Particularly now, if this is a physical auction, you're going to look at... Whichever way it is. Let's put it that way. Whichever way it is, pick up the phone. And, already when you're starting this session, this research, not when you're done. But, even like a week or the beginning of your research, pick up the phone and call the county and find out from them exactly what the registration requirements are.

Because, in many states or many counties, if it's a live auction, you can register right there at the morning of the auction. You just show up. You put a bidder deposit down. You sign up your documents. You get a bidder number and your tenth. Some of them, however, require you to put in your submission or you register a few days before. And particularly, if it's an online auction, you always have to register ahead of the time. That can be four days, five days, six days, and ten days before. You got to check with them to make sure you're doing it right.

And, you got to fulfill their requirements. They have a registration form that you need to e-mail in or fax in or sometimes you can fulfill it online. And also, very important, as Michelle has just said, online auctions almost always have the requirement to actually put down a bidder deposit because that bidder deposit is refundable. If you end up not buying anything, they wire it just back to you. But, it's usually a wire transfer that needs to happen and it needs to arrive at their bank account usually at least a week before the auction.

Michelle: Okay. So, now...

Jack: Now, let me quickly show them, "How do we know this?"

Michelle: Uh-huh.

Jack: We know this because...

Michelle: We've done the research and then realized, "Oh, crap! We needed to have registered," and we are past the deadline. And, all the research was for nothing.

Jack: Exactly. I spend a good week of a couple of hours everyday researching literally an auction that had 300 properties coming up. I focused mainly on land so I didn't have to go out there. But still, I identified 23 properties that I wanted to bid on. I have the budget to bid on all of them. I was excited to bid on all of them. I have exactly figured out my priority list. I've done the research, the mortgages. Everything was done. And then, I realized, it's Thursday. The auction is tomorrow.

And, I realized that I had not yet registered for the auction. It was an online auction and there's nothing I could do. My entire research was wasted. So, don't do that. Don't do that. And then, of course, I had monitored the auction and saw all these properties went below on what I was willing to pay for. So, I was quite upset about my own stupidity, okay? So, make sure that you really take into consideration and really make it a focus to register and follow their rules. Because then, once you're registered and once you put your deposit down, you're ready to bid.

Michelle: Okay. So, we're ready to bid and it's the morning of the auction. And, I'm walking in there with my coffee. And, any secrets to bidding or?

Jack: Any secrets? Yes. Now, one thing you don't know about Michelle and I is that... You might not notice that back in the boom days of real estate in 2004, 2005, 2006 and 2007... Well, it's actually more like 2005, 2006 and 2007. We, ourselves did real estate auctions. We used to buy up to 800 properties a year and now we do less than that. But, we're still actually doing some quite a few deals. And, we used to buy over 800 properties a year and used to do four large land auctions where we'd sell 200 properties in a day. Now, the first one we did, we made a $1 million. The second one, we made $2 million and so on and so forth.

But, the key is, what I realized and learned from auctions is that there's something like auction fever that happens. People get crazy into the auction fever and they forget all rationality. And, if they said like, "Oh my God! I spent a week on research. I just got to have a property." And then, I end up overbidding on these properties. So therefore, make sure that you have a clear ceiling for every single property that you will not go above. That's one trick that will save you a lot of money. And number two, if you can... I mean, it's not in your hands. But, if any of the properties that you want come up either at the very, very beginning of the auction or at the very end of the auction, go for them because prices often at the very beginning and at the very end of the auction tend to be lower than in the middle of the auction.

And, it's very simple, because at the end, most people are gone already. All the people that wanted to buy what they wanted to buy are gone so you'll have less competition. And, at the beginning, all the newbies in the auction don't know yet how this all works so they're waiting out on a few properties until they feel comfortable to actually bid against you and bid with you. So therefore, the very first two or three properties usually sell for less than the other comparable properties. So, that's one thing that you want to do.

Other than that, what you will find in some smaller counties, especially in rural counties is that there's actually a lot of shenanigans going on. And, the shenanigans are that there's a few regular bidders that are actually willing to keep their territory away and safe that they want to keep everyone out of their territory. So, these guys will perhaps bid against you and they will outbid you even though they really didn't want that property just to make you frustrated. So, what you want to do is you want to basically show up there multiple times until they realize that you are one of them and that you're not going to go away. And then, they'll respect you. Then, they'll let you bid. And, they might even stay out of your properties in the hopes that you'll stay out of their properties and so on. So, that works that way too.

Michelle: Uh-huh. So... Okay. So then, what happens after the auctions? So, you've bid on some properties. Maybe, you are the winning bidder.

Jack: Right.

Michelle: And, you're excited. Yay! And, what do you have to do?

Jack: Well. If it's a live auction, you typically have until the end of that same day to pay it up, to pay the amount the amount of money that you bid. So, let's say the $100,000 property with a $15,000 minimum bid and $15,000 in back taxes and then upselling for $40,000... If you have that money, you literally have to get the cashier's check out of your pocket and pay them $40,000 by the end of that day. If it's an online auction, you perhaps have to put down a $2,500 deposit. If you win that same property for $40,000, you now wire them $40,000 and you now own the property. And, that's pretty much it! But, the cool thing is that literally often, within one or two or three business days, the county will issue you a deed to the property, record that deed and you are now the official, free and clear owner of that house.

Michelle: Is that title insurable?

Jack: Is the title insurable? Yes, but... Or, actually no, but...

Michelle: Okay.

Jack: Or, both, but...

Michelle: I hear a lot of "buts."

Jack: So in essence, the answer is almost any title insurance out there will not insure a tax deed. So, the answer is really, usually no. If you go to an average First American Stewart Title, Chicago Title, whatever their names are, they will tell you, "No, this is a tax deed. We cannot insure it."

Michelle: So, how do you get around then?

Jack: There is a couple of ways to get around it. One is by what's called a "Title Certification." So, you'll spend between $750 and $1,500 on somebody and their services out there that you can find that will analyze the entire county process to make sure that the county did all their steps 100% - notified everyone and did all the steps properly. And, if the result is yes, then they will issue a certificate or so that they will certify that this foreclosure or this tax deed sale all happened properly. And with that, the title company will then insure it.

Michelle: Okay.

Jack: Or, you can go and do a "Quiet Title Suit" which also costs you probably about $1,500. You'll hire an attorney and you'll go to a "quiet title suit" process. We'll have another podcast about that process on its own.

Michelle: Should you start right away? I mean, it's $1,500 out of pocket. Should you wait for the redemption period after the auction?

Jack: Right. That's a good point! So, let me just say the third way.

Michelle: Yeah.

Jack: But, the third way is there's actually one title company that does insure tax deeds. But, it's a higher risk because it's possible that the county made some mistakes and that the former owner can come back, suit the county and claim his property back. That's possible! In which case, you would get all your money back and all the interest back and all the things that you paid. But, this is a possibility and that's why the normal title companies don't want to insure it.

But, there's one out there that's called TaxTitleServices.com, and again it's going to be in the podcast notes. They'll also probably charge you like $1,500 for the title insurance but they will insure it right away. So, there's ways to do this. But now, the question that you ask is, "Should you wait?" That again depends on the state because one thing we haven't talked about is that there are certain states where the owner of the property can actually redeem the property. It means that they can pay off the property taxes and get the property back in their hands even after the tax deed sale happened.

Michelle: Uh-huh.

Jack: I think those states are Hawaii, Texas and a couple of other states that are included in there. But again, if you go into the podcast notes on ForeverCash.com/Podcast... If you go to this episode, you'll get this sheet and it actually tells you on the sheet where it's a tax lien state versus a tax deed state. It tells you if they have a redemption sale. Like Connecticut, for example, has another one of six months afterwards. It gives you the details for every single state in the United States. So, in the case where there's a redemption period afterwards, you probably want to absolutely wait for another six months until that redemption period is over because only then are you the true owner of the property. It's same with rehabs and things like that. You might want to wait for that too. And, there's some other tricks that you can do to shorten that period but we'll have to talk about that in another podcast.

Michelle: Awesome! This is extremely, extremely helpful and informative. I've learned quite a bit actually.

Jack: All right. And, there's one extra thing that I want to say that you didn't ask me, Michelle. And that is, "What tricks can we do?" I mean, you asked me about the tricks but you didn't ask me about, "What can we do to make sure that we get the winning bid at a price that we can make a profit with?"

Michelle: Oh, yeah. That makes sense!

Jack: Right? I do want to cover that because that's actually one of the things that separates what we've kind of teach from many others. Many others just teach you, "While this is the process, go ahead and do it at the auction." And, what happens in most cases is that they go and they get outbid by everyone else. And, at the beginning, that happened to us. So, we sat down and we said like... If you remember, you went to Sonoma County with $3,500 and you got completely outbid on every single property you wanted to bid on.

Michelle: Uh-huh.

Jack: Right? Do you remember that?

Michelle: Yeah. Absolutely.

Jack: So, good. So, what you want to do is you want to identify the kind of property that has less competition than other properties. In essence, the one... And, ask yourself, "As an average person, if you would go to a tax deed auction, 'What would you want to bid on?'" And, the answer is that the average person wants to bid on a house with a white picket fence around it and the grass is nicely maintained so that they can move in with the family themselves. And, those are the properties that you effectively want to stay away from because, just like what I said, those are the properties that get all the competition.

Therefore, the prices go up to 90% off market value and whoever buys that property is not going to make any profit on it. But, how about the properties that look dilapidated? The properties with a big hole in the roof? The properties that are all boarded up? The properties with weeds that are 6 feet high? Well, all the people that want to have the pretty houses are going to stay away from these properties. But, you can therefore get the property like that for much, much less money. I just heard... I mean, still in tax deeds, because it's a cash business, you still have to come up with cash. But, a friend of mine just told me about a deal where a property was worth $180,000 and because it was in somewhat a bad shape, it sold at the auction for $80,000.

Michelle: So basically, you need to find out the market values before to see...

Jack: You want to find out the market values after the properties have been repaired.

Michelle: Yeah.

Jack: The good condition market value. And then, you might want to still look at a house. That's why you want to have somebody drive by and take pictures not just to see if it's still there, but also to see what condition is it in so that you can figure out what it's kind of worth today. And, that puts you ceiling but also, it helps you select the kind of properties that less people bid on.

Michelle: Okay.

Jack: So, those houses with some issues and those houses with some rehab necessity in the rural areas are great for that. I mean, I've seen mobile homes worth $50,000 go for $15,000 at the auction. And then, you can flip them right away and sell them with a $20,000 profit.

Michelle: Uh-huh.

Jack: And so on and so forth. And, the other thing is land. Land, land, land is a great overlooked asset class. You can find 40 acres worth $100,000 and buy that at an auction for perhaps $15,000 or $20,000 because most people don't bid on land. And, land is really our first love because, as we've said, we have done over 3,000 land deals. And, we've done a whole bunch of house deals and we have rental properties and those kinds of things that we'll talk about as part of this podcast over time. But...

Michelle: Land has been our bread and butter and our focus at this inception.

Jack: Yes, correct. Exactly! We love land because there's no tenants. There's no toilets. And, there's no termites. And, bottom line though is... At the auction, focus on what makes sense to you, yet try to focus on the ones that not everyone that your brother bids on.

Michelle: Yeah. Okay. Well, thank you very much. This was very informative. I learned something new every single time. So, thank you for sharing and I know that you wanted to mention that if you like this podcast, please go ahead and give us ideally a great positive review.

Jack: You can do that right there on iTunes. And, we would love to get a lot of reviews because it just helps us to spread the word in iTunes. And, we want to hear from you what you like about the podcast. So, please go to iTunes or right there we you got the podcast. Perhaps, you can even do it on the iTunes app. I'm not sure about that. But, leave us a great... Ideally, a positive feedback and share with us what you like about this podcast. With that, we want to say...

Michelle: Thank you and until the next time.

Jack: Thank you. Buh-bye!

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