Forever Cash Real Estate Podcast 033

3 Ways To Getting The Best House And Land Comps

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 pull 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 known 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.

Jack: Hello everyone, Jack Bosch speaking…

Michelle: …And Michelle Bosch.

Jack: And welcome to the Forever Cash Real Estate podcast, and business building podcast basically because real estate is a business, isn't it?

Michelle: It can be if it's not just a hobby and you think about this in terms of doing this professionally, absolutely it is.

Jack: Absolutely, I would even say even if it's a hobby, it’s a business. It's just a part-time business.

Michelle: Yeah I agree.

Jack: That you still need to apply business principles too.

Michelle: Absolutely.

Jack: All right, well good. So welcome everyone. We are going to talk today about how to get to the value of a property. Now we are going to talk a little bit about houses, but maybe about land because that's the question I get mostly. I mean, house comps are really easy, but land comps are in my opinion just as easy, but you got to know a couple of different things about that.

Michelle: Actually can you, for the people that are listening to us their first time, give them a quick run through of what we are all about and...

Jack: Absolutely, we will do that for about 30 seconds. I will share with you that we are talking about… Our podcast is about how to… The core of our podcast is about how to make money with real estate using tax delinquent real estate. So we are a really a tax delinquent real estate podcast. What that means is that we are focusing on prospects, on people that have not paid their property taxes. And about that, you might have heard of tax liens and tax deeds. You might have… If you've heard or read the book, Rich Dad Poor Dad, he talks about investing in tax liens in Arizona and getting 16% interest back for the real estate.

That's really what got us started, because I read that book and I saw and I had never really heard the word tax lien, so I dug into it and out of that we developed not just tax liens, tax deeds investing techniques, but an additional set of techniques for a minimum of five techniques all the way up to eight different techniques, but the core techniques that we apply in our business is five different techniques. As a matter of fact, if this is the first time you are listening to us, I would like for you to go to the website www.ForeverCash.com/Freedom, and on that location, you will actually be able to download or actually access a five part, a free mini-course that gives you an introduction into all these five different techniques that we are using as real estate investing.

Basically the core of our technique is that instead of attending these auctions where there's lots of competition, we are going around the auction. We are going directly to the owner, and we are buying properties that otherwise would have sold for much, much more at auction, we are buying them for pennies on the dollar as little as ten to twenty cents on the dollar directly from the owner with title insurance and all everything around that. And then we turn around and sell it for much, much more, and what we are also specializing in selling them with seller financing.

So we are creating cash flow and within all of that, we love land. Now we are doing house deals, but we are also doing a lot of land deals. So land is kind of like what we specialize on. We figured out basically the real estate techniques how to make land cash flow without any of the hustles, and build a business that is really predictable, where you can… where truly it can be called a business because it's not a treasure hunt. It's a business that is predictable.

Michelle: Yeah, and we use a lot of the same angle on tax delinquent real estate to find homes as well that we either wholesale, or that we decide to buy and hold basically at our portfolio. So we use the same techniques, or they start in the same way and at some point in the process you know for homes, it goes in a different direction, but in essence it starts with tax delinquent real estate.

Jack: The foundation behind all these different techniques, tax delinquent house flipping, tax delinquent land flipping, one technique where you buy a property before it auctions, that the government sell it and collect the overage, tax lien investing, tax deed investing, some advance lien techniques that we use, all these different things is all described at ForeverCash.com/Freedom. So the last other thing is if you want to download this episode, you obviously can do that on the podcast you are listening to right now. But you can also access it to download it from our website which is ForeverCash.com/Podcast.

Michelle: Yes and once you are done listening, we will love your feedback, we would love for you to rate us. Go on iTunes and give us five stars or give us five stars.

Jack: Right. We will prefer five stars exactly. Let me say that we are stubborn here. All right, with that lets get started Michelle.

Michelle: Okay, great. So we want to talk today about value analysis for both homes and land. And I think we'll probably spend a bit more time in land because that's what's less obvious to people. But there's basically three ways. And it's either through comps which is comparables, looking at comparable properties that have sold in an area within a specific period of time, and that are very close in characteristics to the subject property that you are looking to buy or sell. So that's one way.

The second way is, and this applies specifically to rural land and larger acreage which is the second one which is basically by the acre where you kind of establish value by the acre or per acre. And then the third one is where you have lots in cities that are called the infill lots, and where you basically have no other comparable because everything around them has already been built, and so you get to the value of this plots by basically backing into those values through the house prices of… You know, the houses that already exist there and that are around your lot.

Jack: Exactly, good wonderful. So that is what we are going to talk about. So let's start with the first one, comps. Should I go on, or do you want to go on?

Michelle: You can go.

Jack: All right. I can go. All right, so there you go. I got permission from… By the way, if you are listening to this first time, this is done by a husband and wife team. So if you hear us banter back and forth, it's...

Michelle: No banter.

Jack: No banter, okay you got it wrong. So I got permission to talk about that now. All right, so there you go, comps. Comps basically, that's where houses come in to play. I mean, it's really very simple. The beautiful part about the United States is that in many, many neighborhoods, houses weren't just built one off; they were built in great master plan communities. So you got the exact same house down the road about another 15 times in the same neighborhood. So based on that, running comparables is really usually very, very simple.

You just basically look for the same house in the same neighborhood that has sold in the last ideally three months up to six or nine months. But if you go beyond the six or nine months, or actually beyond the three months, you always want to make sure that you keep in mind the direction the market is going. So in a fast appreciating market, three months could already be the limit of what you want to look at. In a very stable market, you can go a year back and look at what other properties sold, because prices are probably the same.

So what you do is you basically find the similar house in the same neighborhood, with similar characteristics in similar conditions, and you look at what those properties sold for. In today's world, we live in the world of Zillow, Trulia, Realtor.com. A lot of that information is available without you having to have a realtor lesson, without you having to have access to the MLS. So you just go on these properties, put in the property address in there, look around, see what other properties have sold for.

On Trulia you can go under the filtering mechanism, and obviously these websites change the way they do it all the time. So as of the time that we do this podcast, this is how it works. You can go in there and you can see sold properties in three months, six months, and nine months. So you look around and see what's sold and if there's nothing that sold in that exact neighborhood, in the exact characteristics, then there's where it gets a little bit more hairy, because you need to now adjust for missing bedroom.

So if you have a three bedroom one bath house, if you want a comp that you want to get the value from, and you don't find any other three bedroom one bath houses, you need to basically look, well if you find only three, two, you need to subtract a little bit of value for the house. Now, how much value you need to subtract is kind of relative to the price of the property in the area? If it's a $200,000 house, you might only subtract up to $15,000 or $20,000 for a missing bathroom. If it's a missing bedroom, you might subtract 25,000/30,000 for that. But if this is in the San Francisco Bay area where houses cost a million dollars, you obviously need to subtract more for a missing bedroom, a missing bathroom.

But you can tell kind of like what by looking at if you find several three bedroom, two bath houses, and you find several two bedroom one bath houses, see how much they are apart from each other and basically a three bedroom one bath house going to be somewhere in the middle of that. As I said, in usual circumstances, you find the exact same house in the same neighborhood that you can comp out except of course in kind of like unique older historic neighborhoods where every house is unique, as well as in the outskirts markets where every house is a custom house. In that case you can go down and actually also value it somewhat reliably based on the price per square foot.

Michelle: Yeah, but not just on the price per square foot on like or on whether they have three bedrooms or exactly two bathrooms, just like your subject property, but also the condition of the property is in.

Jack: Right, that's of course that's why I mentioned in similar conditions. So like yours, it's like… If you find some properties that are really, really nice, then what you are effectively finding in your comps is the ARV, which is the after repair value. And effectively that's what you want to find in the first place, because you want to find out how much is that property worth after I have it repaired, because you can then back track from that into the current value, and then into what you need to buy it for in order to be able to make money there as a wholesale, or as a rehab comp deal. But that's subject to another podcast. Right now it's just about valuation.

Michelle: Another thing people make a mistake is that they also use as a premise for establishing value, comps that are for sale.

Jack: Right. Only end up for sale.

Michelle: …And that have been sold. Unless there's like nothing else in the last however many years that can give you kind of an indication, but not really exact.

Jack: So if there's nothing, that's a great point, if there's nothing that has sold in the last year, but there's a whole bunch of stuff that is for sale, well that's going to tell you something. And what it's going to tell you is that really, the properties that are for sale are overpriced. So that means that you can't, even if you have to come up with the comp value, you can't take the properties that are for sale, but you have to subtract quite a bit from them, because there's obviously, they are all listed there and there's no interest in the market which means very simply, in demand and supply, means there's more supply than demand, and as a result there's more supply than demand, prices will go down. It's as simple as that.

So yes, you don't know exactly how much you will subtract from that, but I've really have never seen a neighborhood where really nothing sold in the last year. Usually something sold, and if what sold is not exactly inside kind of the property you have, you can still adjust, or as I said for the bedrooms and the bathrooms and so on, and come to an estimate of what yours could be worth.

Now on the land side, that's where we want to talk a little bit more. Comps are done exactly the same way. You look for like-kind property that has sold in the vicinity of this property within a reasonable time period. So you go to the same places, Zillow, Trulia, Realtor.com, and you select land only, and if your property is a quarter acre in a subdivision with a whole bunch of other quarter acres, and you see that five other quarter acres in the last year sold for $25,000, well the decision is made. It's not the decision is made, but the valuation is done. You know that your property is worth $25,000. It's exact same thing and really there's not that much more to say about that.

All you need to verify is that your property has the same amenities or utilities that the property you are comparing it to, so if you are looking at a little subdivision, and we just did that yesterday. We had in our office, we had a two day intensive training with the few of our students which is something that we have available for people to come in that want to work with us directly, and really in two days get like what other people get like I don't know in a month or three months of coaching, they get it all in two days. And it's both from Shanghai for two days.

Michelle: Essentially just two businesses.

Jack: And it's usually just two or three business in the room. So it's really intensive personal attention that we give there. In that environment, we went through a scenario where there's a little subdivision, and there's like about 28 one acre lots and there's nothing, no comps in that exact neighborhood. But by the quarter mile away, there was several other comps that sold for just $10,000 an acre. It was a rural subdivision outside of Phoenix Arizona.

And what we came to the conclusion is that these properties are probably worth the same, because in that subdivision, they had water and sewer going through it, but these comparable properties were in the main road where they also had water and sewer already going through them. So as a result, they were indeed comparables. If the comparables had no water and sewer, but we know that the ones that we have, have water and sewer, we again we need to make that adjustment and see how much more is it worth if you have water and sewer and then you'll look for other properties that have that, and those then serve as your comparable.

But really usually you find several properties in the same subdivision that have that. And boom, very quickly, they are sold, you have your sold comps, and it's the exact same thing that you do for houses. The only adjustment you might have to make here is by size. You might not find a quarter-acre parcel; you might find an acre parcel. You might not find an acre parcel, but a two-acre parcel. So you need to make this, just like with the bedroom and baths, you make slight adjustments for the size. That's really much all I want to say about this.

Michelle: It sounds like first time. The second one is by the acre or per acre. I think this applies more for rural properties.

Jack: For land, for land.

Michelle: Absolutely rural land properties and larger acreage is what comes into play. Jack likes to think of it as in like you know, you are buying acreage by the pound, but I don't want to confuse you all. He means by that, is really, by the acre. And what you find there is that usually 40, 80-acre parcels, 160-acre parcels that the bigger you go in the parcel, the lower price per acre becomes. And so...

Jack: Yeah, that's what I mean by the pound. It's like you get the volume these comps.

Michelle: Yeah. And so you can either find comparable for you comparable 40-acre parcels that have sold you know in the area and you can kind of establish value that way.

Jack: If what you have is a 40-acre parcel or something else, okay.

Michelle: Yeah, or basically, see what other, if what you have is like I said, a huge tract and the only comparable is another 10-acre or 20-acre parcel basically, kind of extrapolate from that what the per acre price would be. And like I said, the more acreage you have, the lower that ratio will be per acre.

Jack: Right. And just to… It's hard to give like a real world thought on that, but you are just basically, you just basically look at that. And what you find often is that if your property that you are looking for is a 40-acre parcel, and you find, let's say a 20-acre parcel that has sold for $20,000, and you find an 80-acre parcel that has sold for $60,000. I mean, that tells you right away something. Because four times, an 80-acre a parcel is four times a 20-acre parcel. So if we would just simply multiply the $20,000 times four, we would get to a value of 80 acres of $80,000, but it's all for 60.

So that tells you that even though it's four times the size, it's only three times the price. So you have a 20-acre parcel and an 80-acre parcel, but what you are looking for is a 40-acre parcel. Well, then you can take a 20 acre, $20,000, double it and subtract a little bit to get to the true value of the 40 acres. So it's not going to be where you can take the 80-acre value and cut it in half and add a little bit to it, so as a result, two times 20 is 40.

So if you would just double it, you would get to 40 and if you subtract something you might be at $35,000. Or if you take $60,000 for the 80-acre parcel and divide that in half, you add something and you're also at $35,000. So whichever way you do it, you come to a valuation of those 40 acres at $35,000. Really, you are done. So it's really that simple that you can do that and calculate it that way.

Michelle: So now the third way is for these infill lots, lots basically, trophy, premier lots or just regular residential lot in the middle of the city would be to basically if you find nothing else, no other lot of equal size within that vicinity is to look at basically the homes, the kinds of homes that are being built around that infill lot. And you try to establish value of what those homes are in top condition. Not necessarily just the homes around in arsis condition if that arsis condition is not a great renovated up to date home. Because who you would be selling this lot to, you have to think about it from the point of view of your exit. Your exit is probably going to be a builder. So this builder will basically build a brand new home there, with the latest in terms of probably materials for kitchen, for bathrooms. So you want to look at homes that have been remodeled, that have already been, the after repair value.

Jack: And really this third way particularly applies, let me just make sure everyone understands, particularly applies to infill lots where there's really no comparables available.

Michelle: Absolutely nothing.

Jack: So you have a street, there's an entire neighborhood. There are 999 houses and one empty lot. So you really can't find a true value to the property by comparing it to other empty lots because there is none. And that obviously is often in the attractive areas, in the subdivisions that are fully built out and for whatever reason one wasn't built up. So in that scenario, this applies. So you find those across the city, odd shaped lots, or different lots just like standalone lots and so on.

So in this case, that were built by a master plan community, but just perhaps were sold individual builders built those properties over the last 20 years, 10, years, 30 years, 50 years whatever it is, and left a couple of them open. And in that case you do what Michelle just said. And what you want to do is you want to… Michelle already said it, like you want to find the after repair value of houses on similar sized lots in that neighborhood.

So you want to basically look at which houses in those neighborhoods have recently been renovated, have been… are looking really good. And that's the value of the lot with such a house on there. But then how do you get to the value of the land?

Michelle: So then… Well, yeah, I know. And this can be tricky also because it can depend… It depends on I'm thinking on the market in terms of like just from my personal experience sometimes I've had to… My percentages that have attributed to the improvements of the land versus the value of the land those percentages have changed.

Jack: They do vary a little bit but overall you can say that in a normal market, and I'm talking not New York City, not San Francisco and not I don't know downtown, most of the cities where a single house costs several million dollars, but in normal Americana, where a house cost anywhere between $75,000 and let's say $500,000. In those areas the value of the land is typically about 25% to 30% of the value of the entire real estate of the house, now the house with the land. Right, so if you go to… if there are for sale signs somewhere on the street, or if you got… and the house sells for $200,000 and it's already under contract though it sold for $200,000, that means that the land underneath that house is worth about 25% to 30% of that $200,000.

So basically $50,000 to $60,000 off the $200,000 goes towards the land value and the house cost or the house is worth $150,000. And obviously you can't separate the two, because you can't take the house with you. So therefore nobody even thinks about separating the two. But if you have that single standalone lot, you got to separate them because that's your way to back into the value of the land. And that's very simply how you do it. You find the comps of houses in the area, in the immediate vicinity on similar lot sizes, and then you just take about 25% to 30% off that, and you have your value of your property. But to Michelle's point, you are right, that can vary in high priced areas as well as in really super low priced areas.

Like and there are some areas where you would think the value of the land is $30,000, but you can buy houses for $35,000 which really means that that land value is almost zero. Or it's actually negative because you can't a build a house with $35,000. It's like there are markets in United States where you can buy houses for $25,000 with the land, or there are some areas in bad areas of town, nobody even wants to ever build a house on there, because crime rates and so on are so high. So the value of those pieces of land is almost zero, that's not what we are talking about.

We are talking about a decent normal neighborhood where it's worth building a new house, and in those neighborhoods the value of the land is about 25% to 30% of the total package once the house is done.

Michelle: Now if you are an investor and you are looking at these three different methods to establish value, that doesn't mean that this is now the number that you go and… I mean, it's obvious of course that you go in and offer. But it gives you an indication of what the value is, and then based…

Jack: Oh that's the number you want to sell the property for.

Michelle: Exactly, you want to sell the property for, and then basically based on that whatever your money rules are you either offer 10%, 15%, 20%, 25%, 35%...

Jack: Or 50%, 60% whatever.

Michelle: Of that value.

Jack: Of that value depending on what it is. Now in our way of investing we only offer up to 25 cents on a dollar. 25% of market value because, we want to wholesale these properties very quickly to somebody else at a killer price, or we want to do seller financing, and we want to get our money back very-very quickly, are dealing with a down payment alone or the down payment and a few monthly payments. We got our money back right away, so we love that but obviously, if you come across a property that's worth $ 200,000, because you put a million dollar on home there.

And even though this is outside of the range that I just mentioned, you still come to the conclusion that this is kind of the same 20%, 25% works here. Then in this case you might want to offer more than 25%. You might want to offer $100,000 for this property. $120,0000 for this property because you know if you can sell it at a bargain for 150 or 170 you make $30,000 to $50,000 on that deal. But everything we just talked about is for land or houses and… Or basically you can make the same money with land as you can make with houses. All right, anything else, that covers it.

Michelle: Yeah, there's something else that I wanted to talk about but perhaps in a different podcast is…

Jack: What was that about?

Michelle: Basically how to come up with an offer depending…

Jack: Oh we are going to make another podcast out of that one. So unfortunately you'll have to wait one week, and we'll make that next week's podcast. So on how to come up with a really killer offer based on evaluation of your properties. So I love that as a podcast for next time, because we are already 25 or so minutes into this podcast. So let's call it a day. I wish you all a wonderful rest of the week as mentioned, the podcast notes and the transcripts and all these little things and any links we mentioned right now, are available at ForeverCash.com/Podcast.

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Michelle: Thank you all.

Jack: Have a great-great rest of the week.

Michelle: Bye everyone.

Jack: Buh-bye.

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