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Forever Cash Real Estate Podcast 037

The Top 3 Property Research Steps To Do Before You Buy A Property

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, this is Jack Bosch.

Michelle: And Michelle Bosch

Jack: And welcome to a new edition of the Forever Cash Real Estate podcast. Today we are going to talk about...

Michelle: I would love to talk about due diligence before buying a piece of land.

Jack: That's right, due diligence, what you need to research before committing finally to actually do the closing process.

Michelle: Yeah, not when you are making an offer, this is not something that you do when you are starting to make an offer. You want to have an offer accepted already, and then you would do the due diligence that we are going to talk about today.

Jack: Exactly so if you guys know us, if you've been listening to a podcast for a while, first of all let me quickly say that we have a new gift for you, it's a different kind of gift, I'm not going to tell you too much about it, but it's really cool. All you



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need to do is go to ForeverCash.com/Freedom. Again, ForeverCash.com/Freedom, and you can download, or you can access as I said, you can access a brand new gift that I think you will like. So having said that what we are going to talk about right now as Michelle just said is, we are going to talk about how to do due diligence on land.

And also like Michelle just said I want to just reiterate, or go in and remind you of our process of how we make offers. Contrary to many people in the house area that do all of their research upfront, a lot of research upfront in the land area, you can just simply make an offer, and then once the offer is accepted then you do all the actual detail of due diligence. As a matter fact you do that in the housing area during the inspection period typically if you are just a regular house buyer you do that, but...

Michelle: And I think it's the character of the beast in terms of land versus houses that corners you into for example for homes having to do a lot of due diligence upfront versus in the land just the sheer numbers in terms of responses that you'll get from your direct mail campaigns in terms of phone calls back, because we have a kick-ass letter that will get you those kinds of...

Jack: We don't say kick-ass.

Michelle: Oh I'm sorry. That will definitely get you those responses, and so what you'll find is that you'll have a lot of phone calls coming in. In our philosophy, and in our world no lead is left behind, therefore every single person will get some kind of an offer.

So what we are talking about is at some point if you take this seriously, you'll be making batches of offers of either 100, 200 offers at once. So you don't want to be doing this due diligence in every single property before knowing if even the person is interested in selling. If they'll actually commit to selling, once you have an offer accepted, then you do the due diligence that we'll describe right now for land.



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Jack: And if you just think, what?! 100, 200 offers, let me remind you with our programs on tax delinquent real estate investing going directly to the owners instead of attending the auctions, we have a letter that gets very commonly anywhere between 10% and 25% as a response rate. That means, you might only have to send out 500 letters, and in some cases not every time, but in some cases you might get 120 phone calls of 500 letters. So if you get that guess what, you are making 120 offers just by sending out 500 letters. Now here again not every area gets that higher response rates, some areas only get a seven rate percent response rate, but usually...

Michelle: It's a function of the number or the volume of mailing that you make.

Jack: The volume of mailing that you make, and the area that you pick and the price ranges that you pick and so on and so forth. We talked about that already in a different podcast, I think one of our first our five podcast I believe. So let's jump into you have the offer accepted; now you do a lot of research. And actually a lot is relative, but so what can...? What are some of the things that you need to look at Michelle?

Michelle: So first of all you want to of course confirm the size of the property, you want to confirm whether the property has one physical access, two legal access. Then you also want to confirm the actual legal description of the property, what I'm talking about is usually like Lot 17 of Subdivision... Bridge Canyon County and the state... in the county of Yellow Pie and so on. In book 39 of page 32 of maps 3, that kind of legal description is basically something that you want to confirm so that... to make sure that when you get the plot map, that you are actually buying the right property that it corresponds to the right parcel number, that you originally sent a letter for. You'll also want to verify utilities to the property such as electricity, sewage, water, and for water we actually have an interesting discussion that will...

Jack: We'll have in a couple of minutes.

Michelle: We will have in a couple of minutes.



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Jack: The bottom line is when you go and look at these things; you source a lot of that information from the county website. You find the legal description there you find...

Michelle: The assessor will have that.

Jack: When you go to an open title... open escrow with a title company, the title company will provide you a lot of that information like legal description, things like that. But you got to read that stuff, because it has happened to us that we wanted to buy five acres, and then what we found out with legal description is that we were buying one third interest of five acres. Which means really we didn't buy five acres we just bought a third of every square inch of those five acres. Which obviously we don't want to buy that thing with two other people, we just wanted to buy it all at once, so if you find that out that's part of due diligence.

But then there's some additional pieces of due diligence that you typically have to dive just a little bit deeper, particularly if you do this in areas that are not... Let's say infill areas, and if you remember what infill means, infill is like the properties right in the city where there's houses all round and so on. But if you go for properties that are in the outskirts of town, or on a road where there's like a run road, there's like 10 houses, but on your road there's no houses.

Then all these little things are for the properties out there in that rural area with just a road going to it, but you don't know... But not much more in those cases, you really want to dive into the big difference makers in terms of value which are electricity, which is water and sewer obviously or just water access for that matter. And obviously also road access, right those are the big three that you want look at, because if a property doesn't have road access wow price goes down like...

Michelle: Yeah, I love it and so there's a distinction there to make also in terms of physical access versus legal access. So physical access means that there's actually physically a road that either can be drive or maneuvered or navigated in some



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way with an SUV, because otherwise you have to parachute into the property yeah, so that's what physical access is. The second kind of access is legal access, sometimes you may not have the physical access, but the plat map and the legal description provide for a legal access into the property.

Jack: In form of an easement.

Michelle: In form an easement exactly.

Jack: And sometimes you have physical access but no legal access. What it really means is that somebody made a road where there should not be a road and where there's no legal provision for a road. And if that road existed long enough that's actually a good thing potentially, because that means that you... They acquired what's called an easement by prescription, which means they now... You know, buy this property and can record an easement for it, because the road has been there and has been driven for 50 years and so. And therefore it's kind of like grandfather didn't write for road, they are just by the sheer fact that there's a road, it created the easement over time.

Michelle: Exactly, now if there's no physical access when it's time to market you don't have to hide this from your buyer, you should not hide it. You need to disclose that there's no physical access but they have legal access. Either and you'll be able to see it if you have a copy of the plat map you'll be able to see that there's legal access or like I said you also find it in the actual legal description of the property.

Jack: And what you see by the way often is not 100% so you better go by the legal description and by the flat map. But you see that often when you have the flat map which is typically a kind of like hand drawn picture of black and white, kind of like off the roads and the outlines of the property. And next to the property, next to the fully drawn outline of the property borders there's usually, if there's an easement a dotted line. And that dotted line that indicates that there's an easement around the perimeter off the property. And you can look at the properties around it and you can see if there's a road three properties away and the two properties between yours and the road have that easement.



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That means that you can buy the property and you can have somebody put in the road... from the road to your property through that easement. That means that you have the legal right to create that thing but not... but the road is just not there yet. So when you see that it's a not 100%, you might want to go, to get the... find that easement in the county records or the title company... title company will do that for you, but you want to look out for those things if you are not sure if their property has road access right?

Michelle: Now another thing that I want to say there in terms of legal road access is that you'll come across especially here in the South West areas in rural areas where originally there were huge 40-acre tracts that back in... I would say the 40s, 50s and 60s were bought by some guff ball and went ahead and this person subdivided this piece of land into one acre lots. And originally this 40-acre tract only had either one road or two roads going either in an X, or in a Y walk access if you look at the 40 acres square of land. So what you'll see is that all along, any property one acre lot that was along the X axis or the Y axis will have had road access still to this day. But any of those inside lots will have absolutely no legal access to the property, so you want to watch out for that.

Jack: Yeah, I want to watch out for that, so that's the simple thing you dig in there make sure you figure out the road situation.

Michelle: Yeah.

Jack: And if there's a road if you see from... So somewhere in the road, even if you see from an aerial picture that there's a road, then don't rely on that road not being a... or that road being a legal road. And still make sure that in that process after you have the property and a contract, that you dig in and find out whether or not it's a legal road, because if it's not the thing here is, when you flip and wholesale and sale of seller financing you don't have to go and get the easement for their property. You just have to disclose what you know about the property.

So in that case if you know that there's no legal road access but there's an actual road that's what you say when you put it up on your website, you say this



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property has legal road access or no legal road access, but an actual road going to the property. And then people say people don't care; people say like, hey, there's a road I'll buy it. And then the next buyer can then go and implement that easement and title companies can help him with that. So the next of the big one after the road is the electricity, so I'll talk about the electricity for a moment. Electricity usually is managed by a monopolistic company in a certain region. Like you have either electricity from company A or from company B or from company whatever it is, and that's usually their monopoly.

And I understand some states have deregulated electricity but... And if that's the case, you might have additional options like for example in Texas and other places I understand. But most of the United States still has a monopolistic energy situation. For example, where we live we have two companies in the state of Arizona in a greater Phoenix area not the state of Arizona. They are in charge of electricity, one is called SRP and the other Salt River Project that means, and the other one is called APS, and I don't even know what that stands for.

And SRP and APS and depending where you live you are an SRP or APS area, but because we live in the city electricity is everywhere even underground in most places right now. There is not that many of the old wooden electric poles hanging around anymore. In the areas in those small rural areas the situation is a little bit different. In rural areas the way it looks is that the properties that you might buy might not have any electricity, so step number one is you need to find out who is the company in charge of bringing electricity to that. Number two you need to find out how far is electricity away, and number three you need to find out how much does it cost to bring electricity to the property.

Michelle: Not necessarily because you're going to have to bring electricity to the property, but you want to have that information for your buyer, because you will have you know it will be nice if you can present to them a listing that is as complete as possible and helping them build for their potential exit for that property.

Jack: Exactly right, so also some states have on certain regions, again it's like even within a state it's a little different from county to county sometimes, have



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regulations that these, or state of the county forces electric companies to bring you electricity to your property within a certain distance from where it is right now for actually free. For example it used to be in Arizona and it changed the distance right now, but it used to be that they bring electricity up to five... up to a quarter mile from where it is right now for free.

If you figure out that the electricity right now is 1000 feet from your property border, you can advertise this property as a property that has electricity 1000 feet away, but the electricity company is obligated to bring electricity up to 1200 feet from where it is right now. Therefore you can almost advertise this property as coming with electricity to the property.

You can say electricity or you actually you want to tell the truth you want to say electricity is currently not at the property, but it is 1000 feet away and the electricity company will bring it to your property for free once you have submitted for a building permit, because they don't just randomly bring it there. You have to basically tell them I'm about to start building you guys need to bring me electricity.

The only thing they might have you pay is the electric pole, the wooden electric pole that they might have to put there, if it's in a rural area they still do it above ground. That's about the electricity, now if your electricity is two miles away you call the company and ask them how much does it cost to take it there, and they can give you an approximate amount of what it will cost to bring it there.

Or if it's too far away then you say this is a property non-use, to switch it into marketing mode, then you go and say this is a property that is perfect for your place away from it all where can set up your solar setup. Like you set up you solar, you're off the grid etcetera, and that's actually attractive to a lot of people who don't want to rely on the government. It's a marketing game in this case that you want to play there.

Michelle: Absolutely.



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Jack: Anything else about electricity?

Michelle: I think that's, that covers it.

Jack: All right, then let's move on further.

Michelle: The only thing that I forgot to mention when we were talking about plot maps is that the plot map is absolutely the resource that will also help you confirm the size, and make sure that it's not a tiny sliver of land that you're buying, but an actual lot.

Jack: Right, that's a good... That's very important.

Michelle: Then I would say in terms of planning and zoning which is usually where you're going to get the plot map, right there you can also get any kind of zoning information, or any kind of flooding or you know flood plain information as far as where the property is located.

Jack: Yeah those are additional things you want to jump into absolutely. You want to find out is there anything that this property can be harmed by, is there anything that can affect this property like floods, like flood zones like the obviously the topographical structure of the property? Is it on a steep hill, and because you don't want to buy something that you only can... where you can access this with mountain climbing gear, that's not what you want.

Michelle: Exactly, or if it's a little bit further on the outskirts of a city, but not completely rural what can, how many dwellings can you build on that piece of land?

Jack: Right, was it on four or is a one or four or a different kind of thing? So multi-family and so on and so forth. That leaves us one of the three big ones which is water. Water can be very simple, or can be very complicated; it just depends on where the property is.

Michelle: Yeah.



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Jack: If you're at the Florida area where it rains a lot and where it's very flat and where most of the land is like on sea level almost, the water might be actually five feet under the earth. As a matter of fact if you want to build a house in Florida, in some cases you actually have to put the house on a higher elevation. You have to put up a mountain of dirt and put the house on top of the dirt to elevate it by like three, four feet, so that you can... So it gets you safe from flooding and things like that, but from... because there is just so much water.

If you go to Arizona for example though there is an area where we have bought a lot of land, have flipped a lot of land already and continue to do so where the water levels are 3000 feet deep. In that area it's just financially not feasible to drill a well, because it costs about \$15 and it might by now cost a little more perhaps even already up to \$20 a foot, a vertical foot to drill into the ground. If you have to drill 3000 feet deep, you're basically spending between 45 and \$60,000 to create a well without even having a guarantee that you're going to hit water.

Michelle: Yeah, and there are very good resources to try to figure out a solution to the water. It's either planning and zoning a realtor that specializes in the area or even the neighbors if you can find out the contact information of neighbors that actually already have a home there. That's kind of like how Jack and I have gone about that, and what we have found is for example there's an area up here in Arizona that does not have water and like he said it's financially...

Jack: Doesn't have any electricity either.

Michelle: Or electricity either and it's financially just not feasible to build you know the well, and so what we found out was there is this gentleman or the water man that will deliver water to your home or to your land.

Jack: If there are four bedroom, two bath, two car garaged houses in an area with no water, with no electricity and with, well with dark roads.

Michelle: Yeah.



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Jack: Right so it's incredible, so that might not be your dream to live like that, but it doesn't have to be your dream. Yours, somebody else's dream might be to be off the grid, to be totally independent, and then they have two choices. Usually what's happening is that the community they belong to did spend the money and have a deep well. Therefore there is a community well that the people can actually access there, and so you want to find that out.

If there is the water levels are very deep, well find out if there's a community well. How, if your lot has access to a community well and if the answer is no what it takes to get access. Sometimes you have to join an HOA and home owners association, and the home owners association has the well, and without being part of the HOA you can't buy there, or if you have to...

Michelle: Usually the HOA will maintain roads as well.

Jack: Yeah will maintain roads and so on, and so then what people do that live there they actually go and have pickup trucks and then pickup truck they have a potable tank that fits perhaps 200 gallons. They go and fill up their tank with water, bring it home and then pump that water into their regular storage tanks and so that there, where they fit like 600 gallons or so. Then they do the trip two, three times and have their tank full. If they don't want to do that there might be a water delivery service as Michelle just talked about which in that case is Earl the water guy, you're right. You find all of these things out by talking to the county, now again this is an extreme example. In many other areas it's not an extreme example.

Michelle: You go to the Arizona, for example here, water resources department.

Jack: Right there's also the department exactly the water resources department that might have a different name in different states, but it's a department that is in charge of the water. Almost every state will have one of those particularly if it's a state that has sometimes drought, and where water is an issue, like California, like Arizona, like New Mexico, like Oklahoma, like you name it. Those kinds of states they all have that and they all have their rules.



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You also want to understand first of all what your rights are as a property owner in order to be able to get access to water. Does the state where the water rights can be sold separately to people and you might buy a property without water rights which makes it harder to sell. While you have it under contract, you want to make sure that the property has water rights.

In a state like Arizona the water rights come with the property automatically as long as you have more than one acre in a rural area, you can drill one residential well. That's different from state to state to state. Other things for example even though the things that you want to look out for example as I mentioned there is one road that says if you see a subdivision there's like several roads with lots of houses on there, and then there is one road where there is no house on there.

Well, it could be that all these properties were owned by out-of-state owners who just never built, or it could be that that's the only road where they didn't put the water and sewer in, right? It could be that that's the case, so just because the subdivision is three quarters full of houses doesn't mean automatically that your property has water and sewer. Don't assume things like that, instead verify, because once you buy a property and you put your hard earned money in to it, you want to make sure that you have got all these things covered, and that's really the summary of this.

Michelle: Yeah, and just happy shopping then after that.

Jack: Right, happy shopping. Make sure you check those things out. It's really not difficult. We gave all the places already the county. Planning and zoning department is great.

Michelle: Recorders.

Jack: The Department of Water Resources, the recorder for the plot map, for the assessments.

Michelle: The assessor.



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Jack: Their title company with find a lot of these things out and send you that with their schedule A and schedule B that you need to... with the title commitment that you need to read through. And then don't be afraid of picking up the phone and calling your title company and asking them about those things.

Michelle: To walk you through it if you don't understand it.

Jack: And walk you through it if you don't understand it and so on and so forth. Once you have found all these things found out you can now make your decision on whether or not to follow through on the property. If you come up with stuff that you didn't think is good, some things that devalue the property, then call your seller back, and say like you know what I wasn't aware that the XYZ is not the case. I wasn't aware that there is no electricity to the property. I wasn't aware that you know whatever it is, and then renegotiate with them and in many cases they're willing to drop their price just because they are sick and tired of owning a property that just cost the property taxes every single year. Perhaps they have inherited it, or getting older and they just don't want to hold on to it.

Michelle: Yeah.

Jack: Therefore, they are willing to get rid of them.

Michelle: Then to wrap up this will take you a little bit of more time, there is a little more leg work in this kind of due diligence. That's why you don't want to do this when you're making an offer, because if you're trying to crank out 100 offers at once, and you don't even know if they're actually going to accept your offer, it would be a complete waste of your time. That's why you do this kind of research that we just explained once you have an offer accepted.

Jack: All right then with that we say thank you very much for listening to us again. We're excited to bring to you the Forever Cash Real Estate podcast, and we're going to have another one in just one week from now, and in the meantime...

Michelle: The free gift.



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Jack: Make sure yes you go to ForeverCash.com/Freedom where you get your free gift. Also the podcast notes as always on ForeverCash.com/Podcast. You can go to ForeverCash.com/Podcast to get to download the podcast, download the transcription, download some Tweetable notes, and also there is a link to give us to rate through your iTunes and rate us. We would love for you to go there, give us a possible five star rating, leave a comment on there, leave a review of our podcast, and that's pretty much it, so with that until next week.

Michelle: Thank you very much.

Jack: Buh-bye.

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