

# Finding Foreclosure, Probate Bargains

By ANTHONY MARGULEAS  
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With housing inventories in the Los Angeles area at an all-time low, homebuyers are actively seeking out alternatives to the conventional property pool. They are more likely than ever to consider a probate or foreclosure sale. Once considered an area of the market appealing only to experienced property investors, probates and foreclosures are a viable way of finding a suitable home with the potential benefit of built-in equity.

It's hard to believe that in such a hot market, where most property owners are sitting on piles of equity and interest rates still low, foreclosures could even exist. But "life happens" and people's circumstances, such as bankruptcy, family problems, or a job loss can all contribute to the need to foreclose, even in these crazy times.

At any given time, there's a good chance that there are at least several local homes in the foreclosure process. While the list is not long and can be obtained on the Internet, in Pacific Palisades alone in the last few months there have been two homes in the foreclosure process in the Riviera, nine in the Highlands and three on Sunset.

The benefits of foreclosures and probates? Often they can provide the opportunity to buy the least expensive property in the best neighborhood, or a property you can add value to. But there are considerations before you decide to travel this route.

## FORECLOSURES

There are three separate stages in the foreclosure process.

In order to get the best deal, you need to strike early, namely at the moment the home is listed as a "NOD" (Notice of Default), which happens when the homeowner has missed three mortgage payments in a row. At this early stage, if the homeowner is seriously en route to foreclosure, you stand the best chance of getting an offer accepted by the owners who have every incentive to deal with you if they want to avoid having a foreclosure on their credit history. At this stage you also have the opportunity to research the title and condition of the property.

At the next stage, "NTS" (Notice of Trustee Sale), you need to be a cash buyer and appear at the appointed courthouse for the public auction, and bring either cash or a credit note from the bank in order to secure the deal. At this stage you will be buying the property "as is," with little or no chance of finding out about its true condition.

And finally, if the property goes to "REO" (Real Estate Owned), you will be negotiating with the bank or loan company that now owns the home. At this stage, your chances of a good reduction in the price are less. The banks are pretty savvy these days and know how to market a property to get top dollar.

Three of the homes in the Palisades that have sold at one stage of foreclosure or another in recent months include: A "NOD" on Almar sold for \$735,000 just a month after the default notice was filed. A "REO" in Searidge on Palisades Drive, having been taken over by the bank in December, sold for \$665,000 in March. Another "REO" on Calle Haleigh sold for nearly \$1.3 million only a month after the bank took it back in December.

## PROBATES

Probates are a legal process by which a court determines who will inherit a decedent's property and what the estate's assets are. If someone has a will, but does not have a living trust, their real estate is typically sold in probate court.

In Pacific Palisades there have been nine probate sales in the last 12 months, with two currently on the market. If the listing price is low, it usually means the house is dated, needs work, or may be considered a teardown.

Sometimes executors of probate properties, who are typically not real estate experts, may price the property too high, especially in a seller's market like we have now. When that happens a property may languish unsold for a long time. Buyers will wonder why it hasn't sold. Is there something wrong with it? Often, if a probate is overpriced, it will end up selling for less than market value.

That said, probate sales tend to be the least expensive homes on the market and are often an excellent buy. In the past year,

most of the probate sales in the Palisades have been in the \$800,000 to \$900,000 range, making them by far the least expensive properties around.

There are two main types of probate sales—ones subject to court confirmation and ones that are not.

If a property is subject to court confirmation, the judge usually sets the overbid at 5 percent plus \$500 over the accepted offer price. So, for example, if a buyer has an accepted offer on a million-dollar probate home and it is subject to overbid, the first overbid would be \$1,050,500. The judge will decide the incremental amounts above that, which may be \$500, \$1,000 or \$5,000. With all probates, the court requires a 10 percent deposit as compared to most home purchases that typically require a 3 percent deposit.

The best strategy for negotiating a probate that is subject to overbid is to never negotiate an offer that is more than 5 percent under market, or you could be overbid. The best recommendation is to come in 2 to 3 percent under market, so the likelihood of someone overbidding is diminished. It is very important to have a realtor who is knowledgeable about the neighborhood and how to properly value a property.

Another strategy for a court overbid home is to come to the court hearing and overbid the first buyer.



(Anthony Marguleas is the owner of A.M. Realty, working solely on behalf of buyers. His company has been in existence for nine years and has offices in Pacific Palisades, Pasadena, and Toluca Lake.)