

# Create Legacy Wealth by Fixing Problem Properties



**Terry Moore**  
CCIM

Every quarter I have clients on the fence about whether to close on an in-escrow investment

or walk away from it. Often, the buyers realize that the owners or the in-place management firm has blundered to such an extent that it affects the value of the property. Those mistakes or deficiencies can be a possible windfall to a new buyer, because wise investors focus on future potential. They ask: "How can I create value by correcting problems?"

## Better rewards are earned by solving bigger problems

Failures can take many forms, like low rental income despite a strong rental market or a seller who has spent money foolishly. Sometimes management is ineffective, has allowed undesirable tenants (resulting in financial problems), has not maintained the property, or has engaged in inappropriate operating standards.

When the next investor buys the property, would he or she suffer the same subpar results, or are the problems fixable? After serving hundreds of real estate millionaires, my counsel is to avoid problems that are beyond correction: "the wrong things wrong with a property." Instead seek out and fix problems that are solvable. Legacy wealth is built by purchasing a property with the "right things wrong with it."

Savvy players know that buying right lays the groundwork for extra profit; and when they find the right kind of fixable problems, they are on their way to enhancing the long-term value of the investment. Almost anyone can buy right when every price is a sale price. It is

much harder to buy well at other times in the market cycle.

## Evaluating the situation

A buyer can inspect the property, hire an expert to report on the property condition, then assess the relative strengths and weaknesses of the asset in relation to the other opportunities and challenges.

Almost all the investors who bought foreclosed San Diego property made outrageous money. They bought income streams that were selling at 25% - 50% off. Most people who did not buy foreclosed rental property later regretted the choice. Wise shoppers sometimes buy at a Nordstrom's sale or Nordstrom Rack and then tailor the item to fit. That kind of value shopping works even better with income property.

## When to jump in, and when to jump ship

In my first five years in income property brokerage, about half my closed apartment escrows were situations where the buyers had no useable financial history from the sellers. We only knew that the previous owners were not able to make the mortgage payments and had lost their entire investments. Would the next owner also lose? The answer to this question is found by thorough due diligence completed before the closing by knowledgeable professionals.

## What does having the "right things wrong with it" mean?

The "right things wrong" are problems that add value when the problem is corrected. Buying assets with fixable problems is one of the best strategies I know to build legacy wealth quickly and relatively safely.

Fixable problems include:

- Terrible paint or dead landscaping
- Poor signage
- Bad management and/or

unacceptable tenants

- Poor customer service
- Shoddy maintenance

A new owner and new standards can correct the problems or can bring in competent people who can fix them. Savvy investors look for ways to spend \$1k to create \$2k of value.

## The wrong things wrong are

those that are beyond a single investor's control, or when fixed do not increase the value of the investment, or the cost to fix exceeds the increase in value. Things like:

- Physical obsolescence (the property is just worn out)
- Properties "under-parked" in relation to competition
- Major structural problems
- Declining local economy
- Deteriorating neighborhood or security concerns

If a property has "good bones," it is worthy of a thoughtful look and an analysis of what it will take to make it truly profitable. An opportunity is worth considering if competent management with the right resources can bring the asset up to local norms—or maybe even above them. Some "problem" real estate may even have advantages over its competition. It could have a better unit mix, newer construction, or be in a better census track. All of those long-term advantages will be hard to replicate, so they end up being very lucrative to the smart investors.

## How can you know the difference between an opportunity and a problem property?

The answer is found when you receive expert advice, develop good instincts, and can understand and prioritize how and what needs to be fixed to enhance the long-term value of the investment. *San Diego Daily Transcript* recruited me as their first "Trusted Advisor." How can I serve you, as you strive to build legacy wealth with income property?

Terry Moore, CCIM has been featured nationally in *Commercial Investment Journal* for his sustained ability to build wealth through wise apartment investing. His clients have profited in Chula Vista, City Heights, El Cajon, North Park, Pacific Beach, the highway 78 corridor, and 80 other San Diego County zip codes over the last generation. You can contact him at [TMoore1031@gmail.com](mailto:TMoore1031@gmail.com), 619-889-1031, or at [www.SanDiegoApartmentBroker.com](http://www.SanDiegoApartmentBroker.com).