

Building a Big Portfolio by Acquiring Tax Lien Properties

SUCCESS REQUIRES KNOWLEDGE OF STRATEGY, COMPETITION, AND GEOGRAPHY.

by Charles Sells

If you've heard of tax lien properties at all, it is likely in the context of those popular late-night infomercials that imply (incorrectly) that tax sales are some sort of secret investing strategy where there is no competition and the pickings are easy. I'm afraid I can tell you firsthand that there is plenty of competition at tax sales these days! The good news is despite serious competition for the good deals, this real estate sector definitely rewards effort. Investing in tax liens and acquiring properties through tax sales is a highly effective way to build a big, profitable portfolio, if you are willing to put forth a little energy toward developing a strategy and understanding your competition.

KNOW YOUR PLACE

Many investors are often scared away from the tax lien investing process because it sounds complicated. As I mentioned, this is a sector of the industry that will reward sweat equity and elbow grease, but you are not mandated to invest your time and energy. You can build a tax lien property portfolio relatively inexpensively as a passive investor if you choose, and the barrier to entry is far lower in this sector than you will find in most other forms of passive real estate investing.

I categorize individual investors who want to invest in tax liens into two categories:

1. REDEMPTION INVESTORS who have no interest in acquiring properties and are focused on earning the above-average returns generated when property owners redeem the liens on their properties.

Investor Insight: Focus due diligence on properties in states with high penalties and interest rates on the redemption of property tax liens and select liens that have the highest chances of being redeemed (paid off) rather than going into foreclosure. Signs that a lien will likely be paid off include if the property is owner-occupied and if the owner made a partial payment on the property tax before the lien was acquired by the investor.

2. PROPERTY INVESTORS whose goal is to eventually take ownership of the property because of the current owner's failure to redeem the tax lien. These investors probably make up about 60 percent of all individual tax lien buyers in the industry.

Investor Insight: There are a lot of details that factor into which liens a property investor will buy and in which states. The decision will usually hinge on an individual investor's specific real estate strategy. In general, any real estate investor hoping to own a prop-



TAX SALES:

An auction at which investors bid on properties with delinquent tax liens. In some states, investors pay a price for the lien, while in others, investors may bid down the interest rate on the lien.

TAX LIENS:

Government entities place liens against properties to compel the owners to pay back taxes. If the taxes remain unpaid, then that lien may be used to seize the collateral (property). When you buy a property tax lien, you pay for the right to collect the lien and associated fees and interest or, after the redemption period, begin the foreclosure process on the property.

erty via purchasing a tax lien should focus their efforts in states with short redemption periods and favorable foreclosure laws that increase the odds and ease of taking ownership of a property once the debtor fails to pay their taxes.

In addition to individual investors buying properties using tax lien strategy, there are also several additional categories of investor operating in the tax sales space:



TAX LIEN INVESTING BY THE NUMBERS:

10 BILLION

Estimated dollar amount of all the property taxes that go delinquent each year.

426 BILLION

Estimated dollar amount of the total property taxes owed on state and local levels at any given time.

TWENTY-NINE

The number of states in the United States that use tax lien sales to compel property owners to settle their unpaid tax debts. Washington D.C., Puerto Rico, and the U.S. Virgin Islands also have tax lien sales.

THIRTY-SIX

The upper end of the rate at which interest rates and fees that delinquent taxes may accrue and, by extension, that a tax lien investor might collect on a lien. However, tax lien investment professionals will tell you that the actual range starts as low as about four percent, although 12 percent is a more common number.

- **Institutional Tax Buyers** usually have budgets of more than \$2 million and represent funds or other business entities investing in large volumes of these liens.

- **Intermediate Buyers** tend to operate in the space between \$1 million and \$2 million budgets, and may be individual buyers (although individuals tend to have smaller budgets than \$1 million) or business entities or investment funds.

- **Service Providers** represent both individual and institutional tax buyers at tax sales. My company serves as a service provider, although I have also done many individual deals on tax lien properties as well.

Investor Insight: We find that being able to identify the various types of buyers at a tax sale and, by extension, make an educated guess regarding their bidding and purchase strategies, is equally important, if not more important, as the due diligence on the properties themselves. You don't want to spend hours or days in due diligence only to have a less than one-percent chance of winning the bid. Knowing the habits and preferences of your competition can save you a lot of time and money.

WHERE DO YOU FIT INTO THE EQUATION?

As you read through the types of tax

lien investors we are accustomed to seeing at auction, you probably thought you recognized yourself in one of those categories. There are many nuances to tax lien investing, so understanding where you wish to position yourself at an auction and when you buy is crucial. For example, certain states are better for fix-and-flip investors buying tax liens than buy-and-hold investors, and vice versa.

On the other hand, some investors, as I mentioned, simply want to build a big portfolio of rental properties. Tax lien properties tend to be the perfect fit for renting demographics, and they also tend to be in the "starter home" and "affordable" tiers of the market. In short, they make perfect rental properties...if you know how to buy them at the right price and then leverage that ownership productively and quickly.

Tax lien investing is one of the most flexible real estate investing strategies available to investors at all levels of income and leveraging nearly any investment strategy. Now that you have an idea of where you fit in the equation and who is going to be at those tax sales with you, you can begin exploring just how to build your tax lien property portfolio and make it as profitable as possible. •



This article is the first in a series about tax lien investment strategies. Charles Sells is the president and founder of Platinum Investment Properties (PIP) Group, which

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