STRATEGY

TAX LIENS

Building a Bigger Portfolio

ACQUIRING TAX LIEN PROPERTIES IS A STRATEGIC INVESTMENT THAT VARIES BY STATE AND CONDUCT OF SALE.

by Charles Sells

Despite serious competition for the good deals, the tax lien 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 energy toward developing a strategy and understanding your competition.

In my March 2018 article in *Think Realty Magazine*, I wrote about the types of buyers in the tax lien investing space and how to identify them. Here, let's look at the pros and cons in different states, why bidders flock to specific sales, how the sales are conducted differently, and how to conduct yourself at a sale.

Sales are conducted differently depending on state due to legislation surrounding sales. Also, certain sales prove to better benefit private investors verses institutional investors, while some are better for redemption verses property acquisition.

GEORGIA

TAX SALE:	First Tuesday of every month
BID INCREMENT:	Bid up on advertised tax amount, up to full price of property (or over)
MAXIMUM BID:	Set penalty rate of 20%
REDEMPTION PERIOD:	1 year

Georgia is a great state for the property investor. With a high set penalty rate of 20%, and a very short redemption period, odds of taking possession of the property are strong. Most institutional investors also tend to steer clear of states like Georgia, because they are leveraging their investments with banks that limit the amount of REO an institutional investor can acquire.

Georgia can also be a good fit for the redemption investor willing to put in a little more work. With a penalty rate of 20%, if you bid a $5,000 tax bill up to $100,000, that means the owner, or their lender owes you $20,000 in penalties. It could be paid off the next day, or in the twelfth month, but they still owe the full penalty. As a result, if a redemption investor's strategy were to focus on only those liens sold that have a mortgage, odds of redemption are going to be much higher.

ILLINOIS

TAX SALE:	Seasonal - Usually in the fall
BID INCREMENT:	Bid down on maximum bid rate
MAXIMUM BID:	18% (36% a year)
REDEMPTION PERIOD:	Up to 3 years

Illinois is a great redemption investor state, but unfortunately, it is also a heavily sought-after state for institutional investors. Illinois is unique in that the amount buyers win the bid (at sale) "doubles" every six months. It is also a penalty state, which means if I buy a lien on a Tuesday for $1,000 at 18%, and the homeowner redeems it the following Wednesday, they owe me 18%, or $180. If it is six months and one day, that 18% becomes 36% and so on, for up to three years. With a long redemption period, money can be deployed for longer, which institutional buyers enjoy, and the likelihood of redemption becomes greater. Illinois also offers the first right of refusal to tax buyers to buy the subsequent tax lien for a set interest rate of 12%.

FLORIDA

TAX SALE:	Varies, but usually early spring/summer
BID INCREMENT:	Bid down on maximum bid rate
MAXIMUM BID:	18% (5% + 1.08% per month)
REDEMPTION PERIOD:	2-2.5 years

Florida is possibly the most unique and convoluted state in the country when it comes to tax sale auctions. Florida conducts both a tax lien sale and a tax deed sale.

Lien sales are conducted online in nearly all Florida counties, which increases the number of bidders exponentially, and decreases opportunity for private buyers. Bids are submitted to the lowest possible (1/4 of 1%) and winners distributed to randomly. Institutional investors flock to Florida because there is essentially no overhead to attend the auction and the 5% penalty they can achieve is adequate in their annualized yields, so long as they can count on an early redemption. The odds of acquiring REO are less than 3%, which also makes it attractive to institutional buyers.

Around the two-year mark, a tax lien buyer files a Tax Deed Application (TDA) on any unredeemed tax liens within their portfolio. Included in the TDA can be title search costs, subsequent taxes, etc. After proper servicing, notice, and publication has been provided by the county, the tax collector then holds a second tax deed auction, selling the property to the highest bidder. As a result, a tax deed auction is a great way for a property investor to acquire properties for their portfolio.

Earlier I mentioned the importance of your conduct at a tax sale, or for that matter, at any public auction. In the 20+ years I have attended live auctions, I have seen everything from fist fights, to elected county officials being indicted for and sentenced to jail for bid rigging. By innocently saying to a competing buyer at an auction, "Hey buddy, you take that one at 18% and I will get the next one at 18%," you have violated antitrust laws, punishable by up to 10 years in prison. I have seen more than 20 tax buyers and elected officials go to jail for 18 months or longer for this punishable infraction.

When you attend an auction, leave your emotions in the car. Experienced buyers are tasked with the job of making you second guess your bid or prevent you from bidding at all. Professional, yet catty remarks are the norm at an auction. Bidders who fall prey to this game tend to get wrapped up in the moment, overspend, and never come back. Ignore the comments, be certain of yourself, and don't exceed your set budget, no matter how much you may want to prove a point to the bidder pushing your nerves. •

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