Tax-Sale Horror Stories

SOMETIMES, THE BIGGEST WARNING SIGNS ARE RIGHT IN FRONT OF YOU.

by Charles Sells, PIP Group

When the absolute truth seems too good to be true, how do you know whom to trust?

That statement is the most-often-cited reason investors give for why real estate investors have not yet gotten involved in tax lien and tax deed investing. Many aspects of this strategy just seem too good to be true.

Consider the following:

- You can absolutely gain access to incredible properties at rock-bottom prices.
- Your investment is absolutely backed by the full force of the government.
- Your lien absolutely does take precedence over just about every other debt on the property.

Even though those are accurate statements about tax lien investing, an investor's success is not absolutely guaranteed simply because he or she is pursuing this strategy.

There are certain things that can go wrong with a tax lien or tax deed investment. These are the true "tax investing horror stories," and they have nothing to do with whether or not you *can* routinely get properties for pennies on the dollar at the tax sale. They are worth sharing here because of the preventative lessons they offer you as an investor.

Here are three of the worst you will ever hear:

NO. 1 The Negative Neighbors Make Your Profits Nosedive

Probably one of the worst tax-lien horror stories you may ever hear has to do with an investor who nearly gave up on tax deeds because of a dead raccoon. And before you think he was just being a little high-maintenance, here is what happened:

This guy had won a great three-bedroom/two-bathroom property in South Carolina at auction, and it was pretty clear that the homeowner was not going to redeem the property. The investor thought this would be a pretty open-and-shut deal and that he would soon have a great fix-and-flip under his belt. He would have, but the neighbors had other plans.

What wasn't obvious at first look was that the neighbors had been enjoying not having anyone in that property. They had even started using the garage for storage! The investor had been to look at the property and knew it seemed abandoned, but he did not realize that some of the junk in the garage that appeared to have been "left behind" had actually been placed there by the neighbors, who were enjoying the free self-storage option provided by the vacant home.

When the investor started clearing out and cleaning up the property, the neighbors turned up to get their stuff. But it was not until he put the newly renovated property on the market and the roadkill started turning up on the porch that he realized they were pretty upset at the idea of having new neighbors.

Although there was never any outright vandalism of the property, things sort of came to a boil when a dead raccoon was lying on the front porch the day of a big open house. It was nasty, stinky, and no accident. Although the house eventually sold, it sat on the market far longer than it should have because when buyers came by to look at the property, the neighbors would come out and talk about how noisy the neighborhood was at night or how they were sick of the cops getting called all the time and, of course, there was that pesky roadkill issue to deal with.

> Lesson Learned: The negative-neighbor issue can be hard to predict in advance, but you can try to get an idea for the property by stopping by personally to see how the neighbors react. Once you realize you have an issue, then regular surveillance is key until the property is sold.

> Expert Advice: The PIP Group uses various methods of security and surveillance to keep its properties safe and secure during the renovation and sales processes.

NO. 2 Too Many Good Deals Make Your Strategy Go Bad

Once investors get past the idea that investing in tax liens and tax deeds is too good to be true, they sometimes swing way too far in the other direction. They buy far more properties than they can handle, and they often pay too much at auction.

Do not assume everything at auction is a good deal just because you can get good deals there.

A great example is the investor who spent his entire severance package from his former employer on tax lien investments. He was holding tax deed certificates and tax liens on a total of 10 properties! Unfortunately, he had no idea what to do with them all once he had them. He had trouble keeping track of which properties were still in the redemption period and failed to handle the foreclosure process correctly.

Ultimately, he ended up just letting four of the properties go completely and never foreclosed or collected the money he was owed. He did eventually get through the process with the other six, but it cost him time and money that he had not anticipated spending. His excitement cost him thousands of dollars because he was not willing to start with a more modest portfolio.

> Lesson Learned: Just because you can acquire a huge number of properties at a tax sale does not mean you necessarily should. Most investors buying on a larger scale opt to work with investment managers who are equipped to keep everything on track throughout the process.

> Expert Advice: The PIP Group manages capital funds for more buying and management power than any one party could have if they were operating alone.

NO. 3 An "Invisible Tenant" Who Won't Leave

Imagine this scenario: You walk up to the front of a vacant house. You recently acquired the deed to the property, and you need to decide if you want to fix-and-flip the property or turn it into a cash-flowing turnkey rental. Suddenly, you see two eyes peering out from behind a dusty curtain. You realize the door is locked (and not with the new locks you put on it, but with a padlock) and you can see some furniture through the window. You head next door to see what the neighbors know about your apparent squatter. They tell you her name is "Candy" and she has been there for nearly a month. You didn't see her before you acquired the property because she is, they say, "nearly invisible and no trouble to anyone."

No trouble to anyone…except you. Thanks to some pretty aggressive renters' rights laws in the state where you acquired the property, you cannot just evict "Candy" even though she is not really your tenant. She managed

to stay in the property long enough that now you have to go through a formal process. That is pretty difficult since she is, as the neighbors said, "nearly invisible."

You end up having to add almost eight months to your timeline for the deal because you just can't get your invisible tenant to leave. A lot of the profit you expected to make on the house has gone to maintenance costs, and once you finally get inside you discover she also set a fire in the bathtub. You finally have your cash-flowing rental property, but it was anything but easy to finally get a paying tenant on the lease.

> **Lesson Learned:** It can be hard to identify invisible tenants like "Candy" because they are usually well aware that their invisibility is what protects them and makes it possible for them to stay in your property.

> **Expert Advice:** The PIP Group investigates everything about a property before the purchase, but then also regularly visits properties during the redemption period to make sure that no one has moved into the house after the tax sale. You should also only buy in states with investor-friendly policies on the books when it comes to protecting your interests against squatters! After all, an ounce of prevention is easily worth pounds of the cure.

EDUCATION IS EVERYTHING

You can see that even though a lot of the negativity around tax lien and tax deed investing is misplaced, it is definitely true that you need to be aware of the potential pitfalls and problems you can encounter. If you do not, you could lose a great deal of money on your deal — far more than the "pennies on the dollar" you bought the property for in the first place. •

Charles Sells began his career investing in tax liens at the age of 23. Like many of us, he was enticed by the simplicity and profitability often conveyed in popular coaching programs and weekend workshops. However, experience taught him that success required more than a simple snap of the fingers. So, at 26, Charles kicked the pitchmen to the curb and started his own business, helping investors discover realistic profits investing in distressed real estate.

The model was simple: use his growing knowledge, integrity and tenacity to help others grow alongside him, in experience and in profits. One investor at a time, Charles has built a reputable business helping individuals invest passively in everything from tax liens to the ever-so-popular fix-and-flip. Fast-forward 20 years and The PIP Group has transacted hundreds of millions of dollars in distressed real estate investments on behalf of nearly 1,000 investors worldwide. Charles and his team at The PIP Group have taken the stress out of investing in distressed real estate, by enabling investors to have their individual investments remain in their name and their control, retaining 100% ownership, with Charles and The PIP Group team at the helm to make certain those investments remain profitable.