

Can it Comp? A Guide to Buying Right

When evaluating a potential deal an investor must know if the deal makes sense. What should you bid? What is the maximum you can pay? By pulling sales comparables you can back your way into these numbers and walk away from a potentially bad deal. While sales comparables are not an exact science, it gives the investor the ability to determine worthwhile deals.

What is an accurate sales comparable?

An accurate sales comparable identifies recent sales of properties that are similar in terms of bedrooms, bathrooms, square footage and condition. The best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. In general, they should be within a mile of the potential deal and less than one year old. In neighborhoods where blocks and streets can vary in value, be discerning in what an accurate comparable is. It is important to drive by the sales comparables to determine how your property compares.

If your rehab project includes adding a 3rd bedroom and 2nd bathroom, be sure to pull comparable sales for what the completed project will be, not what it currently is.

Steps to Buying Right

Step 1: Investor identifies potential rehab project and gathers sales comparables and averages value.

Step 2: Investor estimates costs to bring property up to market value. To confirm costs, investor receives contractor quotes. Investor determines target profit number.

Step 3: Investor calculates purchase price

Plugging the Numbers

Step 1: Property Identified, Average of 4 sales comparables are \$150,000

Step 2: Contractor estimates \$25,000 in improvement costs.

Step 3: Investor should set a minimum profit of 20%.

$\$150,000 \times .80 =$	\$120,000	Total Amount that can be financed with 20% profit
	\$7,000	Closing Costs and other fees
$\$120,000 - \$7,000 - \$25,000 =$	\$88,000	Subtracting closing costs & Rehab costs

To ensure a 20 percent profit, the maximum an investor should pay for the property in the above scenario is \$88,000. Investors additionally need to consider their carrying costs after the project is completed. To best determine what possible carrying costs could be, look at the days on market for your sales comparables. The difference between 3 months and 6 months on the market can substantially affect your profitability.