

The Journey from Distress to Value

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Purchasing a distressed asset can be a major headache. Properties valued below market, for whatever reason, often require significant time, effort and money to make them a profitable investment. The potential payoff is promising, but oftentimes investors can find themselves trapped with a distressed asset that takes a lot and pays very little.

However, with the right mindset, a little creativity and a toolbox of strategies, investors can transform a distressed property into a valuable asset with little effort or additional cost.

The pros and cons of distressed assets

Distressed assets can provide a higher yield, allowing you to make more money than you would with a non-distressed asset. Stable properties sell at a higher price, but unstable properties have the potential to provide higher income after being stabilized.

Distressed assets also have a low price tag, making them appealing to beginning investors, or investors with limited capital. But oftentimes these investors don't realize that the effort and money it takes to make the property valuable usually requires significantly more than the initial asking price.

A distressed asset can be tricky to assess at first glance because of its current, unstable condition. How can you tell if the property has great potential value, or if it is just a black hole that will not return any profit?

There are strategies that are fairly simple that, if used correctly, will allow you to increase the property's value without hemorrhaging money. They may also be helpful in assessing if a distressed asset has the potential to grow in value.

Building your plan

The journey to turning a distressed asset into a valuable investment takes time and creativity. Investors should always thoroughly research any potential property, and enter the investment with a solid game plan to increase its value.

There are several strategies you can use to increase a property's net income or resale value. These methods may not work for every property, but they are a great place to start when assessing a potential investment. The good news is that they're simple enough that anyone can use them, even brand new investors, to increase their returns.

Raising Rents: Many properties don't stay current with a rising rental marketplace. If the property is charging below market rents, there might be an opportunity to raise rents over a period of time to increase the net income. A quick rental survey of nearby comparable properties should tell you if your property has potential.

Increasing Square Footage: Properties with room to grow in size have room to grow in income. When you add more rentable square footage, you can get more rent. It's as simple as that. Plus, construction costs should be more than offset by the gains in future income.

Increasing the Number of Units: The more units you have to rent, the more income you receive. If you can get creative with your square footage, you can add tremendously to your property's net income.

Lowering Expenses: Every dollar you shave off your expenses grows the net income. By evaluating your spending categories, you can find ways to decrease your expenses, thereby raising the value of the property.

Improving Operations: Be efficient with your property's operations. Are you getting your money's worth or are there areas where vendor pricing could improve? You can save a lot when you improve your property's management.

Are distressed assets right for you?

Distressed assets are distressed for a reason. They often require tremendous improvements before they can become the type of valuable investment worth your time and money. But, if you go into your investment with open eyes and a solid game plan, your journey to profit can be a smooth ride.

Chris Hanson started Hanson Capital Group LLC in 2008, performing foreclosure auction bidding services for institutional clients. He founded Hanson Capital LLC, a mortgage bank focused on hard money lending, in 2010. In 2014, Hanson started GCHC Investments LLC with a partner to capitalize on buying distressed properties.

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