

SIX

Possible Problems and How to Avoid Them

"Who dares nothing, need hope for nothing." – J.C.F. von Schiller

If you think about it, tax lien certificates and tax deed sales are a symptom of something gone awry with the property owner. Usually the reason is plain negligence (someone goes out of town for an extended period) or a lack of money. When someone has been an owner of the property for a long time and real estate values in the area suddenly rise due to development, the tax burden on a person can double or triple over just 5 or 10 years. Rather than sell the property, the owner procrastinates on the decision until it gets serious.

It is also possible that the property is not worth the amount of taxes owed. Environmental contamination may have been discovered on or near the property or, after years of negligence, the structures on the property may be in disarray. The property may be prone to excessive flooding or have building restrictions. Water rights also might be an issue.

The first step in assessing if there is something truly wrong with the property is to compare the assessment of the property's value to similar properties in the area. For every tax lien certificate or tax deed property, you can find an assessment of the property's value by a government agency (usually the county assessor's office). If this assessed value is significantly lower than similar properties in the area, there is probably a problem with the property.

To avoid possible environmental issues, do not buy properties near industrial areas. Do some research in advance and talk to locals to ensure the property is not near any hazardous waste sites. You also can go to the county courthouse and look up the property on Sanborn Maps, which will show the historical uses, if any, of the property. Avoid any areas that were previously used as commercial or industrial sites. In fact, in most cases where you are looking at buying residential property or raw land, do not buy if the property was ever zoned for anything other than agricultural or residential use.

There are other environmental issues you should consider. Avoid any property near a gas station. Gas stations almost always contain underground storage tanks that can leak, potentially contaminating nearby properties. In general, avoid any property with underground storage tanks. Avoid any property near a dry cleaning facility, which uses solvents to clean garments. Many of these solvents are cancer causing and highly mobile, potentially contaminating other properties and groundwater. Other potential problems include asbestos (common in commercial properties more than 20 years old), lead paint (possible in any structures built prior to 1978), and radon (common in areas with basements built in or on top of bedrock). If possible, inspect the property to make sure it is free of debris and does not contain any soil staining, sheens or seeps. Look for water damage and, if possible, survey the local area for drainage ways to

determine if the property has the potential for flooding. For residential property, the chances of a serious environmental problem are low. However, that does not mean you should not check for all of the environmental problems just described. Chapter 10 of *Rogue Real Estate Investor* provides a more detailed discussion of potential environmental problems.

Another possible problem is that a property owner could declare bankruptcy while you are holding the tax lien. This will not ultimately affect your investment, because tax lien investors are secured creditors, meaning that you will get your money or the property. However, receiving your money could be delayed while the initial portion of the bankruptcy proceeds. If you think the property owner is in danger of declaring bankruptcy, and the best way to tell is how much is due relative to the worth of the property, do not bid on the tax lien. Chapter 11 of *Rogue Real Estate Investor* covers bankruptcy issues in more detail.

If you have any uncertainties about a property, do not buy. There are always plenty of tax lien certificates and tax deeds available. Sometimes the best decision is to not get involved.