

This has happened twice with similar results so I thought it would be interesting to relate so you are aware if it happens to you. In the first case we were looking at a duplex that didn't have a meter on the exterior of the building. The student involved took pictures for me to see the inside and outside of the building but I couldn't see the electric meter. The power was on in the units, so I asked him to go back out and look again.

Ninety-nine percent of the time we are concerned with the interior electrical panel and whether it is fused, has circuit breakers and is installed properly. Ideally, these panels, if mounted properly will be flush mounted (recessed into the wall) and have ground wires. If the panel is surface mounted, the wires running into the rest of the house should be covered or in metal conduits.

Sometimes we will see an electric meter inside a building, almost as if the room it is in was built around the meter. Actually, this is the case. The homeowner illegally added a room and did not move the meter to outside the building. This means a meter reader has to come into the property to read the meter. More importantly, in case of a fire, firemen have to shut off the power and may have to break into the property to do this. This may be harder or impossible if the fire is too advanced and the firemen may just cut the electrical wires at the house or pole instead.

I had the student look around the duplex to see the next closest building and it was a single family home about 100 feet away. After doing a little research in the public record, we determined that the homeowner in that house had built the duplex without permits about 40 years earlier.

He had the electrical meter placed on his house and had the wires run underground to the duplex he built. All that worked pretty well except when he sold his house and kept the duplex for himself. Actually, he got a loan on the duplex and then walked away from the mortgage payments so we were looking at buying an REO (bank-owned property).

As we had already sold the duplex we started to investigate with the FP&L about getting a new electrical line run from the nearest pole to the house and putting a meter on the property itself. FP&L wanted almost \$8,000 to run the new line but the city said that the property was sitting on a "non-conforming" parcel of land. This meant that the lot was too small for the duplex and there was no solution because of the re-parceling of the original lot.

We could still buy the duplex and sell it to our buyer, but the buyer would have to take the property with "known deficiencies" of the electric meter issue and the unbuildable (un-repairable) nature of the property. The buyer was literally at the mercy of the homeowner who had the electric meter on his property. There were legal solutions that would have cost in excess of what we were paying for the duplex so they didn't make sense. We explained the issues to the buyer and he almost ran from the building! Better to have done it before the closing than have a major non-disclosure issue later. Yes, he was buying it in "As Is" condition but that doesn't mean you can legally hide known deficiencies from a buyer.

There are some investors who would take a chance on buying this property and renting it as long as it stood up. They would likely make money in the long run but that's a speculative buy in any investor's book. Who would they blame for the problems that came later?

If the buyer had agreed to take the problems, he may have gotten an insurable title policy but not a clear and marketable title. Clear and marketable would allow him to finance the property in the future. More likely, he would not be able to get a title policy issued – even with exceptions written into the policy (Schedule B-1).

So we passed on the deal and the last I heard the city had condemned the property as un-repairable because of the non-conformity of the parcel and the code violations that existed from the original construction of the building. Be careful of buying a building that has known code violations, a non-conforming lot, and any structural changes that were not permitted at the time of construction. If you have the ability to fix these issues, then and only then, go for it. If you are wholesaling, get a buyer before you have to close yourself and make sure he knows what has to be done to the property to make it habitable.

Just as I thought I would never see a stealth electric meter again, along comes a triplex that has no meters on the exterior of the building. We had it under contract and sold it because the buyer would be getting a 20+% yield after repairs. We had a lot of calls on it near the end of our inspection period so we had to take an offer or give it back to the seller. The seller was a national bank and was selling the property with any and all problems that were to be determined and accepted by the buyer.

The listing agent did say that there had previously been four contracts that had fallen through. The pictures the student sent me looked good and I never thought to ask where the meters were because he only had a couple of exterior shots. As in the above property, the electric was on in each unit. The first buyer that called us for a contract had seen the property and was satisfied but wanted a discount from our asking price. It turns out he was flipping the property to another buyer he had and just wanted to make more himself – actually more than we were making.

A second buyer called and offered our asking price but couldn't look at it until the following week as he was leaving the country. Yet a third buyer called and offered our asking price plus 5%. This last buyer was a local and longtime pro investor in the area and knew what he was doing. He went out to the property three times with his partners and a contractor. He called me to say he would take the property and was wiring the deposit and signed contract. This was at 4:00pm on a Thursday.

The funds didn't get wired in and the contract didn't arrive. I called him and he said he would send the contract again but asked me where the meters were for the building. He said he had walked around the building four times and couldn't see them. I looked at the student's pictures and saw the lines coming from the pole to the building and then underground via pipe.

We called the power company and they referred us to the meter reading section. They immediately told us that the meters were in a locked room on the back of the building. There were three entrance doors on one side and six doors on the back side of the building. I called the buyer who was supposed to have sent the contract and money but only got his voice mail. By now the other two buyers had been told we had a contract coming and their contracts would be backups. Generally speaking, most investors don't like to be put in backup contracts and neither of these two buyers would either.

The pro investor did not answer or return my calls. I was annoyed that he didn't have the courtesy to call and tell me the truth that he hadn't sent the money or contract. I suspect that he found out, as we did the same day, that the meters were not in the back of the property as the electric company had said, but in the building next door in a locked electrical room.

This placement of the meters was done by the original owner who built two triplexes and had the electric in one rather than on each property. This cost him less at the time, but now the two triplexes were being sold separately. This meant to a buyer that he had to move the electric from one building to the next. This entailed permitting the construction and updating the property to current codes. The cost was excessive for the price the lender had agreed to with us. We passed on the deal because the inspection period was up.

In summary, always check that you can find the electric meter on a property and that it isn't inside the structure unless it is in an electrical room. Also, be wary of the old adage, "The check is in the mail or the wire has been sent" if you aren't getting the money or contract – take action and always have a backup if possible.

To your limitless success,

Dave Dinkel

**PS – The “No More Excuses” Mega-info Seminar is coming Saturday, February 11<sup>th</sup> and Sunday, February 12<sup>th</sup> more info at <http://www.breia.com/NoMoreExcuses.html>**