# Stratford Lane: Valuing a Foreclosure as a Potential Rental Property

Scott Hoover
Washington and Lee University

It was late April 2011 in the small town of Lexington, Virginia when James Winkle flipped through the classified ads section of the local newspaper and made note of a "Trustee's Sale" of a local residential property (see Exhibit 1). The property was a rather interesting one for several reasons. First, it consisted of a main residence plus two "cottages" (essentially a duplex) located on a 1.95-acre lot at the edge of town (see Exhibit 2). The duplex provided rental income which would reduce the effective mortgage payment for the purchaser. Second, the property's assessed value for tax purposes was well above its market value, suggesting that value might be added if the assessed value could be reduced. Third, the main residence was a 1999 reproduction of a large 19th century Victorian home. Although stunning in appearance when it was well maintained, the property had deteriorated after its owners fell into financial difficulties. Winkle knew that there is sometimes "value in ugliness" because ugly situations discourage most potential buyers, but he also knew that the uniqueness of the property might ultimately reduce the likelihood that it could be sold quickly for a fair price. Winkle had looked at the property prior to the collapse of the real estate bubble. At that time, the property was listed for sale at $2.3 million. The house did not sell at that time and the owners held on to it until early 2010 when they defaulted on their mortgage payments and moved out of the house. The owners then listed the property again in hopes of avoiding foreclosure. This time, the asking price was $950,000. Although as of April 2011 the property was still listed for sale, a trustee had been appointed by one of the lenders to handle the sale. This effectively removed the owners from the equation, although there was always a small chance that the owners would still make good on their mortgage obligations and reclaim the property.[1] Winkle believed that the property could be purchased for well less than the $950,000 asking price; after all, the terms of the Trustee's Sale suggested that $415,000 would satisfy the first mortgage and the lender on the second mortgage was in a rather weak position. Winkle wondered whether he should bid on the property at auction, try to buy the property before it was brought to auction, or avoid the situation altogether. He knew he would have to gather additional information to make that decision.

## James Winkle

James Winkle was a 45-year old financial analyst who worked for a Washington, D.C. asset manager. Because his work involved mostly financial modeling and because he was highly valued by his firm, Winkle had the privilege of living wherever he liked and working from home. He had chosen to live in Lexington, Virginia because of the beauty of the surrounding areas and

[1] All states have a right of redemption that allows a borrower to reclaim the property prior to a foreclosure auction. To redeem the property, the borrower must pay off the entire debt plus any interest, fees and penalties that have been incurred. Some states—not including Virginia—have a statutory right of redemption that gives borrowers a specified time period after auction to reclaim the property. To reclaim the property after auction, the borrower need only pay the amount of the winning auction bid.

the unmatched outdoors activities that came with that beauty. It did not hurt that Lexington was a quintessential small town that seemed an ideal place to raise a family. Winkle earned a significant annual salary that left him with more than enough money to live quite comfortably in Lexington. It also afforded him the luxury to potentially invest in interesting opportunities that might arise. Recently in the wake of the collapse of the real estate bubble, Winkle had become interested in the idea of buying distressed properties that needed a bit of work. His hope was to buy properties, make any needed repairs, rent the properties for a short period, and then sell the properties if and when the real estate market recovered. Although he had no prior first-hand experience in real estate investing, he had a great deal of second-hand knowledge he had gained working with his father (who had owned several rental properties over the years) and an uncle (a real estate investor in Chicago). In addition, Winkle had provided the financial analysis for several real estate projects his firm had evaluated.

Winkle had about $90,000 in free cash, but he preferred to retain $20,000 of that to handle unexpected needs. He had also established a personal policy of not buying an investment property unless the rental income was at least sufficient to cover the mortgage payments. Furthermore, he would not purchase a property unless he believed he could earn at least a 20% return per year. Winkle was well-versed in financial theory and knew that the required return should depend on the risk of the investment, which in turn should depend largely on the level of financial leverage. He also knew that many real estate investors used arbitrary required returns because estimating an appropriate required return for a real estate investment is quite difficult and fraught with error. In financial theory, the required return should be directly related to the systematic risk of the investment. For publicly-traded stocks, historical market prices can be used to estimate this risk. In real estate, there are no active markets for specific properties, so estimation of an appropriate required return is typically done by comparing the given property to similar properties that have already sold. In the case of Stratford Lane, there were no comparable properties in the community or surrounding communities. Because of this, Winkle opted to use an arbitrary required return that he believed was high enough to protect him in all feasible leverage situations.

The foreclosure process was new to Winkle. He had significant financial experience and a textbook knowledge of the foreclosure process, but had yet to participate in it himself. He knew that buying a foreclosure takes more time than buying a typical property and he knew foreclosure properties were bought "as is."[2] He also had read and understood the Virginia foreclosure laws. Despite having no first-hand experience, Winkle was very confident in his financial skills and believed the property could be a great investment if he could buy it cheaply enough.

---

[2] This contrasts with open market purchases that often include inspection and financing contingencies. Lenders are under no obligation to fix any problems associated with foreclosures, but they usually designate a short period of time during which a potential buyer can inspect the property at the potential buyer's expense. Unlike many other states, in Virginia there is no "seller's disclosure" requirement and the responsibility for finding any potential problems rests with the buyer.

## The Community

Lexington, Virginia is a small but old town located in Rockbridge County, which is sometimes described as the heart of the Shenandoah Valley. The town is home to both the Virginia Military Institute (VMI) and Washington and Lee University (W&L) and nearly all local jobs derive from the activities of those universities. Employment at universities is to a certain extent immune to downturns in the economy, so Rockbridge Country had not experienced the same increase in unemployment seen elsewhere in Virginia and the rest of the country. In March 2011, Rockbridge County maintained a healthy 5.8% unemployment rate while rates stood at 6.3% and 8.8% in Virginia and the United States, respectively (U.S. Bureau of Labor Statistics). Despite this, Winkle had recently looked at 13 high-end residential properties in Rockbridge for potential investment and found that ten of them were unoccupied. It was apparent there was an oversupply of high-end residences and it was not entirely clear to Winkle what it would take to eliminate the oversupply and return the market to some semblance of normalcy. Despite the abundance of unoccupied properties, there was a shortage in the supply of rental properties. Local property managers had more people looking to rent than they had available rental properties. Because of this, Winkle believed it was a nearly perfect time to buy rental properties.

## The Property

The Stratford Lane property was well-located, being about a half mile from W&L and three-fourths of a mile from the center of Lexington. It was surrounded by pine trees that provided privacy, but the down side of that privacy was that the trees blocked potentially great views of the Blue Ridge and Allegheny Mountains. In addition, the duplex was only 100 feet from the front of the main residence and tended to reduce the privacy (see the top right photo in Exhibit 2). The main residence included 4773 square feet of finished space plus another 2396 square feet in an unfinished basement and floored attic. There were five bedrooms (each with an en suite bathroom) and a variety of other rooms (see Exhibit 3, which shows an information sheet from the Multi-Listing Service (MLS)). The house was finished with high-end materials, but a few problems were evident. First, the walls in every room of the house would need minor repairs and repainting. Second, although the kitchen cabinets were of high quality the countertops and all appliances (refrigerator, dishwasher, two ovens, cooktop, microwave oven) would need to be replaced. Third, the house included a large room that was once a two-car garage. That room was trimmed with high-end oak materials that had yet to be stained. In addition, the exterior walls of the converted garage consisted of brick on the bottom half but only windows and construction wrap on the top half. Furthermore, there was a gap between the brick lower half and the unsided upper half (see the bottom right photo of Exhibit 2). That gap would naturally collect any rainwater that hit the top half of the wall, effectively funneling the water into the space between the exterior and interior walls. The conversion of the garage into living space had left the property not only with no garage space, but with no space to store outdoor tools such as a lawnmower. As a rental property, having no garage would not be a big negative. If the main house was to be used as a family residence, a garage might be a big positive.

The duplex residences were mirror images of each other, with two bedrooms, two bathrooms, a one-car garage, and 1492 square feet of living space. The duplex was nicely designed except that the kitchens were built with low-end materials. Still, the duplex was clean and completely functional. Each side of the duplex was under lease for $1100 per month, with one lease set to expire at the end of August 2011 and the other set to expire at the end of August 2012. Although Winkle believed the main house would suit his family's needs and therefore might serve as a residence for his family, he also knew that the house could potentially be rented to students from W&L's law school. The property would be the closest rental property to the law school (which was housed in a building less than a mile away), making it highly attractive to law students. In addition, Winkle saw real value in the fact that each bedroom (both in the main house and the duplex) had its own bathroom. That provided the potential to attract nine renters to the property. Rental rates for law students typically ranged from $450 to $750 per student, with 12-month leases being the norm. With its location and high quality workmanship, the main house would likely fall toward the upper end of the range while the duplex would fall toward the middle of that range. Still, Winkle believed it might be difficult to find renters for all five of the bedrooms in the main house. Historical vacancy rates in the community had been near zero in the student rental market for high-end properties, but Winkle was aware that other investors in the area were developing plans to build new rental units. Winkle recognized that there were two sources of potential vacancy for the property. In one, the property might be leased but one or more of the bedrooms remain unoccupied. The other, the entire property might be vacant for a period of time. The immediate risk seemed to be the former with the latter bringing longer term risk if and when other developers enter the rental market.

The property was assessed at $1.8199 million for tax purposes, which translated to $11,922 in annual property taxes (based on a rate of $0.655 per $100 of assessed value). The window for appealing an assessment had passed, so the only avenue for reducing the assessed value was a petition to the court system. Historically, appeals and petitions for a reduction in assessed value had generally been unsuccessful if the property in question was distressed. Still, Winkle thought the Stratford situation might be different because the property had been listed for an extended period of time at a price well below the assessed value. Because of this he planned to assume that property taxes would be $6,000 per year, but would explore the issue carefully while doing sensitivity analysis.

## The Title Search

Winkle recognized that a title search was an important part of any real estate transaction, particularly so for a distressed property. The title search would show any liens on the property, including mortgages, delinquent taxes, amount due to builders, etc. In this case, the Notice of Trustee's Sale included the words "*Sale is subject to all prior liens, (including the lien of a prior Deed of Trust),*" indicating that there were likely two mortgages on the property. Furthermore, Winkle knew the implication of those words; it would be complicated to buy the property prior to the auction because both debt holders would have to approve the sale.

Winkle conducted a title search and found two liens on the property. One was a $485,000 first mortgage on the property. This first mortgage was originally issued by Wachovia (which later became part of Wells Fargo) and was later sold to BSI Financial Services. The other was a $420,000 second mortgage that was presumably taken out to build the duplex. That mortgage was also issued by Wachovia, but it had not been sold and was currently held by Wells Fargo. This gave a total of $905,000 in principal amount. Of course, the actual amount owed might be higher or lower than that. For example, the home owners might have paid down the principal significantly since the loans were issued, which would reduce the amount owed. Conversely, when the home owners stopped making their mortgage payments, the missed payments plus additional interest and penalties would be added to the outstanding balance. Winkle eventually learned that BSI was owed about $539,000 while Wells Fargo was owed about $250,000, for a total of $789,000 due. Winkle was certain he could buy the property for that amount, but did not want to pay more than necessary. Furthermore, he had yet to estimate the value of the property and he suspected the property might not be worth $789,000. He also knew that the needed repairs might prove to be expensive.

## Fixing up the Property

Winkle considered the work that could be done prior to renting the main house. Generally speaking, that work could be grouped into two categories: work that must be completed for the safety, soundness, utility, and basic appearance of the property, and work that would be desirable but would not have to be finished in order to lease the property. Necessary work (termed "repairs" in the remainder of this document) included the following.

1) Complete the exterior finish work on the garage renovation.
2) Replace appliances in the kitchen.
3) Repair holes in the walls and repaint those surfaces.
4) Replace stained carpet in two bedrooms.

Winkle also knew that any water damage might be accompanied by mold. Although none had been apparent during his walk-through, he knew there was a significant risk that mold was growing somewhere. The presence of mold could adversely affect not only his expenses, but could prevent him from being able to lease the property as planned.[3] Indeed, evidence of mold could lead the property to be condemned for rental purposes.

Desired work (termed "renovations" in the remainder of this document) included the following.

[3] At the extreme and in rare cases, toxic mold can lead to sickness or even death for residents. A number of cases have been documented or suspected, including the death of actress Brittany Murphy which some have attributed to mold (Daily Mail-U.K., March 29, 2013).

1) Add a garage and storage space for outdoor equipment.
2) Build a privacy fence or hedge to better separate the main house from the duplex.
3) Update the landscaping around the house.
4) Pave the driveway and parking areas.

Although coming up with a precise estimate for the work was not feasible, Winkle believed that by completing the renovations he could charge each renter in the main house an additional $50 per month. Thus the extra work would yield up to $250 in extra rental income per month if all five bedrooms were rented. Winkle contacted a local building contractor who provided the rough cost estimates shown in Exhibit 4.

## Managing the Property

Although Winkle was well-versed in finance, he was not thrilled at the prospect of having to manage the Stratford Lane property. He did not want the hassles associated with finding and screening potential renters, handling maintenance issues, and dealing with potential problems when renters miss payments or damage the property. Because of that, he interviewed several local property managers and was prepared to hire David Prell, a local realtor with significant property management experience. Prell's fees consisted of half the first month's rent plus 10% of each subsequent month's rent. In addition, Prell would from time to time need additional funds to cover needed repairs. In exchange for his fees, Prell would handle all aspects of the property management, including leasing out the property, handling all interactions with renters, arranging for repairs as needed, and dealing with any potential problems that might arise. In Prell's experience, maintenance costs averaged about 6% of rental income.

The lease contract would require renters to purchase and maintain renters insurance. This would cover the renters' personal property and liability, but would not cover property damage for other reasons such as storm damage. Because of this and because the bank would require it, Winkle would need to purchase property insurance. Landlord insurance, as it is called, typically runs about 15-20% above homeowner's insurance and Winkle estimated that it would cost about 0.35% of the property's value. For modeling purposes, Winkle chose to initially assume a property value of $700,000, giving him an annual insurance expense of $2,450. If the property turned out to be worth significantly more or less than that, he would adjust his estimate of the insurance expense accordingly.

## The Mortgage Market

Mortgage rates were near all-time lows, with 30-year fixed rate mortgages consistently running below 5% for conventional first mortgages (see Exhibit 5 for various interest rates). Rates on mortgages for second homes were a bit higher and about 50 basis points (0.5%) higher than mortgages on primary homes. Since Stratford Land would not be a primary residence for Winkle, he would face an interest rate 0.5% above the current market rates shown in Exhibit 5.

Mortgages above $417,000 (which are considered jumbo mortgages) are typically not sellable in the secondary market.[4] Because that presents extra risk to the bank, rates on those mortgages tend to be higher than on similar conforming loans. Similarly, mortgages on properties with multiple residences (such as Stratford Lane) are also generally not sellable in the secondary market, so banks extending those mortgages typically are often forced to hold them on their balance sheets. Thus, even if Winkle could purchase the property for a low enough price to keep the mortgage under $417,000, he would still incur jumbo mortgage rates.

In the aftermath of the real estate crisis, obtaining mortgages with relatively small down payments had become increasingly difficult, and buyers with high credit ratings could expect to pay a down payment of at least 10% of the purchase price. Whenever the down payment was less than 20% of the purchase price, the borrower would be required to purchase private mortgage insurance (PMI),[5] which would typically have an annual cost of about $0.50 per $100 of fixed rate mortgage or about $0.65 per $100 of floating rate mortgage. Those rates would of course vary somewhat based on the actual amount of the down payment.

## The Bank's Perspective

Although he was a beginning real estate entrepreneur, Winkle was fully aware of the difficulty in identifying reasonable sources of financing for projects such as Stratford Lane. In the aftermath of the collapse of the real estate bubble, banks had become increasingly tight in their lending practices, requiring not only solid collateral but a steady and well-documented stream of income to support mortgage payments. This was quite a contrast to the pre-collapse days in which *stated income loans*[6] were prevalent.

Winkle was friends with and had previously done business with Isaac Faust, the President of Anchor Bank, a small local bank that was only a few years old. Faust had decades of experience in banking, having founded and subsequently sold two local banks prior to founding Anchor. Since the Stratford Lane property was somewhat different than properties Winkle had purchased in the past, Winkle invited Faust to lunch to discuss the situation. Over lunch, Faust explained, as Winkle already knew, that the property would not permit a conforming mortgage because there were three residences on the property. Faust then suggested that Winkle look into splitting the

---

[4] The $417,000 limit is set by Fannie Mae and Freddie Mac and indicates the largest mortgages that those government-sponsored enterprises will purchase from lenders. In some high cost areas, the limit is set higher than $417,000, but Lexington was not located in one of those areas.

[5] Once a mortgage has been paid down sufficiently or the property has increased in value sufficiently, the borrower is relieved of the PMI obligation. In the former case, the threshold is dictated by law and removal of the PMI requirement occurs automatically after the requisite loan balance has been reached. In the latter, the borrower must petition the lender for removal of the PMI requirement.

[6] Stated income loans, or "liar loans" as they became known, were loans for which the bank asked for the loan applicant's income information but did not verify that information. This effectively meant that people could lie about their incomes and potentially take out larger loans. Banks were not overly concerned about this practice because they could charge high interest rates and, in the event of default, could simply foreclose on properties to recover any principal at risk. This logic fell apart when real estate prices dropped and borrowers defaulted, leaving many banks with significant losses because properties had become worth less than their mortgage balances.

property into three tracts (one for each residence) so that the mortgage(s) would be conforming. This would eliminate one problem, but Winkle knew that splitting the property would be problematic. A split was prohibited by a covenant put in place by the original land owner, Dwayne Jackson, who still resided in a house adjacent to the Stratford Lane property. Winkle knew that Jackson's approval would be necessary to get the covenant removed. He also knew that Jackson would be unlikely to agree to remove the covenant without monetary compensation.

Faust also stressed the importance of being able to show an income stream from the property. If Winkle could not show signed leases for the duplex, his salary would need to be sufficient to cover both the mortgage payments on Winkle's current residence and the mortgage payments on Stratford Lane. Although Winkle's salary did provide sufficient coverage, Winkle also knew that he could potentially negotiate a lower interest rate if he could pre-lease the main house. That income in addition to the already-leased duplex would be quite attractive to the bank. Regardless of the particular loan arrangement, Faust estimated that Winkle would face closing costs of about $12,000.[7]

Winkle thought carefully about whether Anchor was the right financing choice. After all, economies of scale often meant that large national chains could offer lower interest rates. Still, Winkle knew that the large banks faced more restrictions and may not be able to meet his needs. In particular, in the wake of the real estate collapse many large banks decided to require a minimum 20% down payment. Winkle hoped to purchase Stratford Lane with less than 20% down, so he believed his best opportunity could be found at Anchor.

## Foreclosure Auctions

In most cases when a borrower defaults on a mortgage payment, a process begins in which the lender attempts to work with the borrower to bring the loan back into good standing. Because the lender typically suffers significant losses on foreclosed properties and because Federal and state laws provide protections for the borrower, the borrower is typically given a significant amount of time (often a year or more) to begin making payments again. When it becomes clear that the borrower will not be able to make payments or is unwilling to do so, the lender initiates the foreclosure process. The borrower is then notified of the impending foreclosure and given a final opportunity to comply with the terms of the loan. If the borrower does not comply, the property can be scheduled for auction.[8]

Foreclosure auctions are conducted by the local government and are typically held at the local courthouse. A number of outcomes are possible a scheduled auction and these outcomes are complicated by the presence of multiple mortgages on a property. With multiple mortgages in default, any of the lenders can force the foreclosure auction. The potential outcomes include the following. First, the lender that forced the auction might cancel it for strategic reasons. For

[7] These closing costs do not include any prepaid expenses or prorations.
[8] The process is governed by a number of different laws, including the Federal Fair Collections Debt Act which requires that the borrower be given 30 days advance notice and copies of any auction ads placed in newspapers.

example, the lender might consider the market and conclude that it is best to hold on to the property until conditions improve. Second, the auction might be held but have no bidders. In this scenario, the lender on the first mortgage becomes the sole owner of the property with all other lenders and the borrower relinquishing their ownership claims. Third, the auction might be held with one or more bidders participating. The winner of the auction is then given a specified amount of time to close on the property or forfeit the required deposit. The proceeds of the auction are distributed according to the seniority of the claims, with the lender on the first mortgage getting paid first and subsequent lenders getting paid only after higher seniority claims are satisfied in full. If the winning bid is sufficient to satisfy all mortgage claims, the borrower receives the excess funds.

## Winkle's Strategy

Although many real estate investors believe that the optimal holding period for a property is forever, Winkle preferred to hold a property for a limited time and then move on to another property of interest. For modeling purposes, he assumed that the property would be held for five years and then sold. This forced him to consider the terminal value of the property, which might be estimated using perpetual growth in the rental cash flows or a market multiple based on estimates of rental cap rates in the area.[9] With low inflation rates and continued instability in the economy, Winkle did not believe the market would permit dramatic increases in rent. In fact, he thought that 5% per year would be on the high side for growth over the next few years. Rental cap rates in the area were averaging about 11, but the small Lexington market meant that cap rate data was sparse and somewhat unreliable. Because of this, Winkle knew he would have to complete a careful sensitivity analysis.

Considering everything, Winkle narrowed his financing choices to two possibilities. In both scenarios, he would provide a $70,000 down payment and finance the remaining funds needed to purchase and upgrade the property. In the first scenario, he would use a 30-year fixed rate mortgage. In the second, he would use a 5/1 Adjustable Rate Mortgage (ARM) that was amortized over 30 years. In both scenarios, Anchor Bank would issue the nonconventional mortgage.

The two alternatives provided a contrast in the risk vs. return relationship. The fixed rate mortgage would lock in Winkle's interest rate for the life of the loan, thereby eliminating interest rate risk. The 5/1 ARM was essentially a fixed rate mortgage for five years, but after that Winkle would face an interest rate that might be significantly higher than current fixed rates. This meant that if Winkle were not able to sell the property in five years as planned, he might be saddled with significantly higher mortgage payments.

[9] Rental cap rates are a measure of the profitability of a property relative to its value. They are typically computed by dividing the net operating income of the property by its market value. Cap rates are expressed as integers that represent percentage. For instance, if net operating income is 8% of market value, the cap rate would be expressed as "8."

## The Decision

After having lunch with Faust, Winkle returned to his office to sit down to think about the situation and come to a decision on how to proceed. The property was exciting to him because of its uniqueness and the fact that it might be purchased for well below its value. Still, he was cautious by nature and wondered whether this property was a good choice for his first endeavor into residential real estate. He also thought about the auction process and the factors might be important in determining the best way to acquire the property if it indeed turned out to be a desirable investment.

**Exhibit 1: Notice of Trustee's Sale**

*Default having been made in the terms of a certain Deed of Trust dated January 19, 2005, in the original principal amount of $420,000 and recorded in the Clerk's Office of the Circuit Court of the County of Rockbridge, Virginia as Instrument No. 050497, the undersigned Substitute Trustees, will sell at public auction on May 16, 2011, at 12:15PM, in front of the building housing the Rockbridge County Circuit Court, 20 S. Randolph Street, Lexington, VA, the property designated as Parcel "A-1A", containing 1.95 acres, upon that certain plat recorded in the aforesaid Clerk's Office in Plat Cabinet 2, at Slide 541.*

*Sale is subject to all prior liens, (including the lien of a prior Deed of Trust) easements, restrictions, covenants, and conditions, if any, of record, or other matters which would be disclosed by an accurate survey or inspection of the premises. TERMS: CASH. A deposit of $41,500 or 10% of the sale price, whichever is lower, will be required of the successful bidder at time of sale. Prior to the sale, interested bidders will be required to register with and must present a bid deposit which may be held during the sale by the trustee. The bid deposit must be certified funds and/or cash, but no more than $10,000 of cash will be accepted. The successful bidder's deposit will be retained at the sale and applied to the sale price. If held by the trustee, all other bid deposits will be returned to the unsuccessful bidders. Settlement is to be made within 15 days. The successful bidder will be required to execute a Memorandum of Trustee's Sales outlining additional terms of sale and settlement. A Trustee's Deed will be prepared by Trustee's attorney at high bidder's expense. This is a communication from a debt collector.*

**Exhibit 2: Stratford Lane[10]**

[10] The top left photo shows the main residence prior to a renovation of the garage. The top right photo shows a satellite view of the property. The main residence is toward the bottom of that photo while the duplex is toward the top. The bottom left photo shows the unfinished garage renovation while the bottom right photo shows a close-up of a gap between the exterior brick and construction wrapping.

# Exhibit 3: MLS Sheet

| | | | | | |
|---|---|---|---|---|---|
| **Area Remarks:** | | **Property Name:** | Victorian Estate | **Zone:** | NW |
| **Plat Y/N:** | Yes | **POA Y/N:** | No | **POA Dues:** | |
| **Road Maint Agrmnt:** | No | **Road Maint Amt:** | | **Deed Book:** | DB5 |
| **Tax Map #:** | 15 1 9A3 | **Tax Rate:** | .60 | **Assessed Value:** | |
| **Taxes $:** | 11,922 | **Subdivision Y/N:** | No | **Subdivision Name:** | |
| **Location:** | | **Historic Property:** | No | **Conservation Esmnt:** | No |
| **Elementary School:** | Waddell | **Middle School:** | Lylburn Downing | **High School:** | Roc |
| **Zoning:** | Residential | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Type of Property:** | Residential | **Year Built:** | 1999 | **Rooms:** | 22 |
| **1st Floor Mstr Bdrm:** | Yes | **Bedrooms:** | 9 | **Baths:** | 9 |
| **Half Baths:** | 1 | **1st Fl Fin SF Apx:** | | **2nd Fl Fin SF Apx:** | |
| **3rd Fl Fin SF Apx:** | | **Bsmt Fin SF Apx:** | | **Attic Fin SF Apx:** | |
| **Total Fin SF Apx:** | 7,757 | **Unfinished SF Apx:** | 2,396 | **Total Acres Apx:** | 1.95 |
| **Lot Dimensions:** | | | | | |

**Public Remarks:** This property consists of three dwellings, the Victorian(4773 sqft) & two cottages(1492 sqft ea)could be a Homestay. An exclusive Victorian Estate. All of the romance you would expect in a perfect turn of the century Victorian Mansion...But which century? An authentic re-creation of a vintage 1890s home with all of the conveniences of the 21st century. Situated on 1.95 acres in the city limits.
**Directions:** West on Rt 60 to left at Borden Road, go left. Property is on the right. See RE/MAX Town & Country sign. Status Change Info
**Legal:** DB578/231 w/improvements and 1.95 acres.

**Style:** Victorian: w/two cottages
**Flood Zone:** Minimal
**Current Use:** Investment; Residential; Other: Homestay w/approval
**Best Use:** Bed & Breakfast; Investment; Residential; Vacation Rental
**Road Frontage:** City Street; Paved Road
**Type of Construction:** Brick; Stick Built
**Exterior:** Brick
**Roof:** Shingle
**Basement:** Full; Heated; Interior Access; Unfinished; Walkout
**Garage:** None
**Attic:** Floored; Staircase; Storage; Unfinished

**Fireplace:** 1; Gas; Other: can convert to wood
**Fireplace Loc:** Family Room
**Floor:** Carpet; Ceramic Tile; Wood
**Heat:** Gas; Zoned Heat
**Cooling:** Central Cooling; Zoned Cooling
**Water Heater:** Natural Gas
**Interior Features:** Book Shelves; Breakfast Area; Ceiling Fan; Sauna; Storage; Walk-in Closet
**Exterior Features:** Covered Porch; Fenced Yard; Garden Space; Handicap Accessible; Porch; Security System
**Appliances:** As Is; Central Vac; Disposal; Dryer Hookup; Oven; Refrigerator; Smoke Detector; Washer Hookup
**Porch/Deck/Patio:** Porch: Front
**Topography:** Level

**Water:** Public Water
**Sewer:** Public Sewer
**Utilities Available:** Cable; Electric; Gas; High Speed Internet; Public Sewer; Public Water; Underground
**Covenants:** Animal Restrictions; Architect Cntrl Brd; No Double Wides; No Single Wides
**Easements:** Unknown
**Documents Available:** Disclosures; Plat; Other: Detailed description
**Features:** Cable Available; Cannot Subdivide; Ceiling Fan(s); Fireplace; Guest Quarters; Handicap Access; Porch-Front; Porch-Side; Smoke Detector; Thermopane Windows; Undrground Utilities; Other: 2/ 1,492sqft cottage
**Fencing:** Board; Perimeter
**Possession:** Closing
**Showing Instructions:** Occupied

| Room Name | Room Level | Description | Length | Width |
|---|---|---|---|---|
| Living Room | First | Formal w/built ins | | |
| Dining Room | First | Formal | | |
| Kitchen | First | Efficient w cherry cabinets | | |
| Dining Area | First | Sunny | | |
| Family Room | First | gas log fireplace, built ins | | |
| Master Bedroom 1 | First | | | |
| Full Bath | First | | | |

| Room Name | Room Level | Description | Length | Width |
|---|---|---|---|---|
| Master Bedroom 2 | Second | Sauna, closets | | |
| Full Bath | Second | | | |
| Bedroom 3 | Second | | | |
| Bedroom 4 | Second | | | |
| Bedroom 5 | Second | | | |
| Other | First | Multi purpose | | |
| Living Room | First | 2 Cottages | | |

| Room Name | Room Level | Description | Length | Width |
|---|---|---|---|---|
| Dining Room | First | 2 Cottages | | |
| Kitchen | First | 2 Cottages | | |
| Master Bedroom 1 | First | 2 Cottages | | |
| Full Bath | First | 2 Cottages | | |
| Bedroom 2 | First | 2 Cottages | | |
| Full Bath | First | 2 Cottages | | |

**Exhibit 4: Estimated Repair and Renovation Expenses**

| | |
|---|---|
| Appliances: | $11,000 |
| Wall repairs: | $4,000 |
| Full painting/staining: | $12,000 |
| New carpet in two bedrooms: | $4,000 |
| Interior and exterior cleanup: | $1,300 |
| Finishing of exterior garage renovation: | $2,500 |
| Repair of potential water damage: | unknown |
| Total expenses for repairs: | $34,800 + unknown |
| | |
| Detached garage: | $45,000 |
| Privacy fence: | $1,200 |
| Landscaping: | $2,300 |
| Paving: | $8,000 |
| Total expenses for renovations: | $56,500 |

**Exhibit 5: Market Rates, April 2011**

| | |
|---|---|
| Prime rate: | 3.25% |
| Conventional fixed rate mortgage (30 years): | 4.80% |
| Jumbo fixed rate first mortgage (30 years): | 5.45% |
| Conventional 5/1 ARM first mortgage (30 years): | 3.30% |
| Jumbo 5/1 ARM first mortgage (30 years): | 3.67% |