

# Developing Bank Owned Properties

**W**e sat down with real estate developer, James “Mack” McClelland, founder of MACK Companies to glean some insight into the process of developing bank-owned properties. Mack has been in business for 35 years, first working in real estate sales, then as a broker, later evolving into new construction, and today is the largest redevelopment company in the Midwest and largest single-family property owner in all of Chicagoland.

## How did you get started in developing bank-owned properties?

I began buying bank-owned properties when one of the banks I deal with called and asked me if I wanted to buy a single-family home it had inherited. I bought it, redeveloped it, and sold it. It took three months to do the redevelopment, versus the nine months it was taking to build a new construction single-family home. On that premise I decided to explore this process a little further and found that this was a tremendous opportunity. Fast forwarding to today, we are the largest redeveloper in the Midwest. We handle about 200 bank-owned homes annually; redeveloping them, turning them over to our property management company, and also selling many to our investor partners. We tenant the properties, cash-flow them, and hold them for a long-term appreciation – for ten to fifteen years.

## What is the secret to success in real estate investing?

We are often asked why some people succeed in real estate investing, and more importantly, why so many fail. Without question, the answer lies in Property Management. There is a misconception that people fail in their investments because they didn't buy the right property or it wasn't in the right location. Of course, those factors come into play. However, when it comes right down to it, the inability to analyze one's property and then to manage it correctly is what precipitates failure. **Brick and mortar never make mistakes.** What did that home sitting on its lot ever do wrong? **Nothing.** The property failed because of the person who was managing it, or better yet, mismanaging it.

## What does MACK Companies do differently?

We have a separate company that does nothing but manage our properties. The intricacies behind our management not only make sure that the property returns the type of money we're looking for, but also makes the tenants happy as well as the village in which the property lies. For MACK it's not just about a home sitting on a lot; it's about fulfilling dreams and people moving into homes in great neighborhoods; it's about villages being excited about a vacant property becoming occupied, not only because of real estate tax revenue, but it makes their villages more vibrant. All of that happens because of good property management.

## What happens once you turn the property over to your property manager?

It starts with screening the tenants, getting the right person and making sure that how they treat the property in which they live is congruent with our expectations. Screening the tenant properly is an important key to good property management. We have a full-time screening service that answers 600 calls from prospective tenants per month. Employment in the same job for three consecutive years is required with a salary of at least \$50,000. We then make calls to employers to verify information and inquire about the prognosis for long-term employment. Inquiries are made to the current landlord to verify how much rent is paid, how long they've lived there, what kind of tenants they are, how they take care of their property, and why

they're moving. We conduct a site survey at their current address to see how they have taken care of the property. We look at credit – not just their score, but we do an income and expense ratio to make certain that with the debt they are carrying, that their salary is enough to cover the rent. We then do a skip tracing check and a criminal background check. All tenants are rated according to our findings; and if they are “green lighted” they are put on our waiting list for one of our homes which today is four months.

When we welcome new tenants to their home we conduct a two-hour indoctrination about the value of maintaining their home. Our property managers follow up on a monthly basis to collect the rent and to make sure the vision continues and the property is taken care of, the landscape is kept up, that tenants are being good neighbors, etc. We do this every month.

## What in your opinion is the greatest single impact on a real estate investor's cash flow?

Real estate taxes. Villages are hurting for revenue and they will raise taxes. MACK Companies has its own tax department and tax attorney and we fight to ensure that properties are correctly assessed and that we get every deduction available to us. It is tremendously labor intensive, but the results of our efforts have led to a 22% decrease in the property taxes on our portfolio – which, on \$60 million dollars worth of real estate, is a sizable number.



Mack