

## Another California Builder Finds New Life Fixing Up and Reselling Foreclosed Homes

*But Jim Previti of Frontier Enterprises won't sell to investors or convert houses to rentals.*

**By John Caulfield**  
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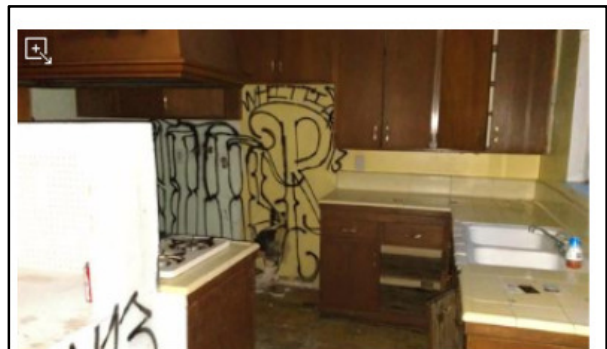
Jim Previti's entrepreneurial career can be seen as a microcosm of Southern California's volatile housing market over the past decade.

Previti launched Frontier Homes in 2002 with only \$1.4 million in startup capital, which he parlayed into several cagey land deals. Within two years of that launch, Frontier's 731 closings were generating more than \$200 million in revenue in 2004.

Five years later, however, Previti was liquidating his company's assets in response to a collapsing housing market that had become flooded with foreclosed and abandoned houses. "Home building as a profit concern became not such a great deal," Previti recalled in an interview with *Builder* last Friday.

Now 42, Previti has been taking what the market will yield. In May 2009, he started a new company, Frontier Enterprises, based in Rancho Cucamonga, Calif., that specializes in buying, restoring, and reselling foreclosed homes. (By far and away, California leads the nation in foreclosure activity, and Los Angeles ranks fifth among all metros, according to Realty Trac, which also estimates that half of all the homes in San Bernardino are underwater.)

Since its launch, Frontier Enterprises has sold more than 1,500 homes valued at \$500 million. Previti says his company will only sell to buyers who actually live in these houses, and three-fifths of his houses have been purchased by first-time buyers.



*Credit: Frontier Enterprises*



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Like New: These before and after shots of a kitchen in a home in Whittier, Calif., show the extent of restoration that Frontier Enterprises is sometimes required to do to get foreclosed homes it acquires ready for resale.

He believes foreclosures would have abated faster had the banks been willing to release their REO properties quicker and federal and state governments hadn't imposed foreclosure moratoriums that, in Previti's estimation, simply postponed the inevitable.

"There's seven million plus houses in the foreclosure process right now, and we're never going to get through this until we can realistically reassess the price points on all of these inventories," he observes. "Someone has to take some risk, and what I'm doing is almost as rewarding as home building."

Previti opposes allowing foreclosed homes to be converted into rental housing, which he claims "creates artificial demand" and devalues the neighborhood. That's why he won't sell to investors or landlords, and why he's against Fannie Mae's plan to sell 2,500 REO homes in bulk to institutional investors for rental conversion. He estimates that 600 of those units are located in Riverside and Los Angeles counties.

When asked how he knows investors aren't among his buyers, Previti and Frontier's CFO Rich Munkvold explain that stricter lending standards require buyers to present documentation that prevents investors from masking their identities. And many of Frontier's customers are financing their purchases through FHA loans that are restricted to first-time buyers. "It's just a different environment than it was 10 years ago," says Previti.

Using his own money and some bank financing, Previti has been acquiring foreclosed homes primarily through courthouse auctions, although more recently his net has widened to include REOs and short sales.

The conditions of these foreclosed houses varies widely. Some are "pristine," he says; others "have had their walls torn out." A rule of thumb Frontier uses is that between 5% and 10% of its selling price equals what it spends on reconstruction. Its prices on resales have ranged from \$60,000 to more than \$1 million, with the average being "in the high \$200s," says Munkvold. Frontier's gross profit margin, which had been between 15% and 20% in its first year, "has skinned down considerably," says Munkvold, thanks to investors who are buying and holding onto these properties.

At any given moment, Frontier is working on "a couple hundred houses" in Southern California, Arizona, and to a small degree Georgia. Previti wants to expand his operations to at least two or three more states, "wherever we can be of some help." But he doesn't see himself doing this forever. Once the housing market stabilizes, "I hope I can talk with you again at some point about my starting a new home building company."

*John Caulfield is a senior editor for Builder magazine*

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