



Investors raise \$8 billion for REO



By Jon Prior

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Larger Wall Street investors rushing into the REO market have raised between \$6 billion and \$8 billion for acquisitions, according to analysts at investment bank **Keefe, Bruyette & Woods**.

They estimate the money raised could buy between 40,000 and 80,000 previously foreclosed homes.

"The single-family rental market has historically been a fragmented market funded with capital from retail or smaller institutional investors," KBW analysts said. "Investor interest has increased meaningfully as the large foreclosure inventory combined with a secular shift toward renting has created the possibility of larger-scale investments in the space."

Jim Previti, CEO of the private real estate investment firm **Frontier Enterprises**, said institutional investors buying properties in bulk are beginning to crowd out the smaller "mom and pop" firms.

Previti, who previously founded a homebuilding company in 2002, said with these large REO-to-rental programs from the government-sponsored enterprises, speculators are driving up prices to catch up with rising rents. It even reminds him of the pre-crisis bubble frenzy.

"The fury in the market is the same as before," Previti said. "There is no need for this. It is almost like the government is forcing us back into this situation again."

But the housing market is still weighed down by an inventory of 1.5 million homes in foreclosure or already REO, according to **CoreLogic (\$27.17 -0.49%)**.

That number goes up to 5.6 million if those backing delinquent mortgages are factored in, according to **Morgan Stanley (\$17.04 -0.04%)** research.

And the roughly 700 homes **Fannie Mae** sold to **Pacifica Corps.** hardly dented its inventory of more than 109,000 REO.

KBW said the investor influx may not be enough yet. They estimate the dollars raised so far may only trim 15% of the foreclosure supply. But there is room for even more growth, which could last for years, they said.

For instance, two mortgage real estate investment trusts **Colony Capital (\$19.53 -0.31%)** and **Two Harbors (\$11.73 0.03%)** invested sizeable percentages of their cash into the REO market. Colony placed 15% of its equity in the sector followed by 5% from Two Harbors, which is building a new REIT just for REO rentals.

KBW analysts believe total potential returns could reach as high as 20% on some investments depending on leverage and how much home prices can appreciate in the months or years ahead.

"We expect the REO-to-rental market to experience robust growth over the next 18-24 months, potentially emerging as an institutional asset class," KBW said.